MEET GOOGLE'S SEARCH GEEKS | BRAZIL'S LULA

BusinessWeek

AMERICA'S HIGH-TECH SWEATSHOPS



How U.S. companies may contribute unwittingly to the exploitation of foreign workers

BY STEVE HAMM & MOIRA HERBST


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Google CEO Eric Schmidt is continuing to invest in search

(COVER) ILLUSTRATION BY DAVID FOLDVARI; (ABOVE) PHOTOGRAPH BY MATTHEW STAVER/BLOOMBERG NEWS, ILLUSTRATION BY SEAN MCCABE

IN DEPTH

AMERICA'S HIGH-TECH SWEATSHOPS

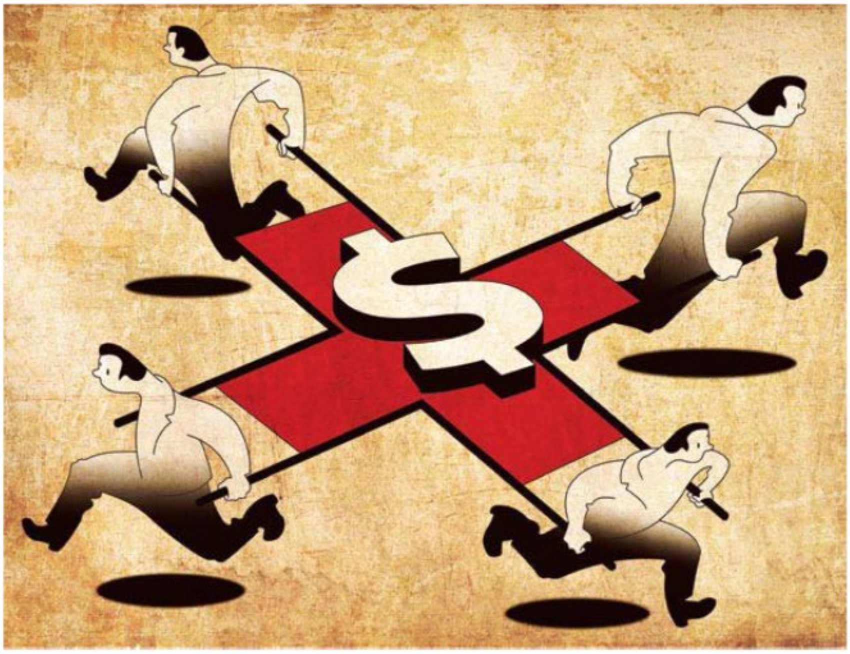
034 | While many businesses that supply U.S. tech companies with foreign workers operate legally, there is evidence that others violate U.S. laws and mistreat workers. How the tech industry may be contributing unwittingly to the exploitation of workers. | BW |

TURKEY TURNS OUTWARD

040 | Turkey's financial system has held up in the face of economic crisis. And foreign investment has surged as the country shifts to a more open economy. What happened? For one thing, applying for membership in the EU helped speed reforms. | BW |

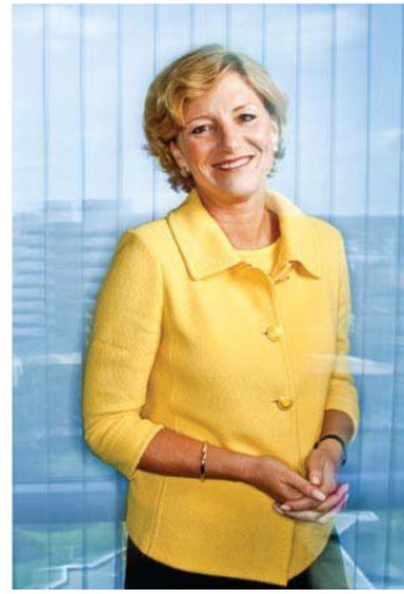
CAN GOOGLE STAY ON TOP OF THE WEB?

044 | With Bing, Facebook, Twitter, and others nipping at its heels, the king of search is betting that its cadre of mathematical wizards will come up with smarter search results. An inside look at what the company is doing to stay ahead of the competition. | BW |



THE GREAT PUBLIC OPTION DEBATE

Business lobbyists insist that a publicly run health-care option would result in a massive shifting of costs from medical providers to companies and private insurers. But many economists aren't so sure. | BW | PAGE 026



J&J TRIES TO BUY A PIPELINE

Two big drugs are going off-patent—so Sheri McCoy, head of the company's pharmaceutical division, is turning to acquisitions, partnerships, and novel research collaborations. | BW | PAGE 058

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082 **COMPANY INDEX**

Jack and Suzy Welch are off while Jack recovers from a back infection.

(L TO R) ILLUSTRATION BY THOMAS FUCHS; BILL CRAMER/WONDERFUL MACHINE



WE'RE BRINGING RANCH QUALITY BEEF TO GROCERY STORES.







Supermarkets know that shoppers will judge the quality of an entire store by what they see in the fresh meat department. So savvy grocery chains have turned to Cargill's branded beef programs to provide their fresh meat departments with products that bring customers back. By focusing on the entire ranch to retail process, Cargill delivers quality beef that is consistently tender. Stores see an increase in meat sales while also improving their overall image. This is how Cargill works with customers.

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THE BUSINESS WEEK

EDITED BY HARRY MAURER & CRISTINA LINDBLAD



Xerox' Burns wasted no time before going after Affiliated Computer Services

STRATEGY

A DRUMBEAT OF DEALS

The masters of the M&A universe have been mostly twiddling their thumbs for the past year—if they've been lucky enough to have jobs at all. Now they may be feeling that fever in the blood again. After a flurry of announcements in recent weeks, two more biggish deals broke on Sept. 28. First, **Abbott Laboratories** made its fourth and largest acquisition this year, paying $6.6 billion in cash for the drugs business of Belgian conglomerate **Solvay.** The move gives Abbott entrée into vaccines, the hottest pharma sector these days, just in time for flu season. Abbott also gains a greater foothold in faster-growing markets in Eastern Europe and Asia and full control of two cholesterol drugs that the two companies already sell together. Next, **Ursula Burns,** named CEO of **Xerox** in May, wasted little time before making a bold move: The company announced a $6.4 billion deal to buy business process outsourcer **Affiliated Computer Services.** Shareholders rebelled over concerns that tech service is unknown territory for a copier and printer company, and Xerox's stock price fell 15%, but it recovered slightly the next day. And investors, thrilled at the prospect of even mild deal mania, pushed up the Dow by 124 points on Sept. 28, near its high-water mark for the year.

"Xerox Bets Big on Services" businessweek.com/magazine

QUITTING THE CHAMBER

Another disgruntled giant is leaving the **U.S. Chamber of Commerce.** In mid-September two big utilities, **Pacific Gas & Electric** and **PNM Resources,** quit the Chamber to protest its opposition to legislation capping greenhouse-gas emissions, and on Sept. 28, **Exelon,** one of the nation's biggest utilities, joined them. "Inaction on climate is not an option," said Exelon **CEO John Rowe,** a staunch Republican, adding that a law putting a price on carbon output is essential. Of course, Exelon operates many nuclear plants, which pump out few greenhouse gases, but other strong backers of the legislation include major burners of coal, such as **Duke Energy.** Those utilities won relatively favorable treatment in the bill the House passed in June.

|BW| PAGE 055 "The Clash Over Clean Power"

-0.7%

Second-quarter contraction in U.S. GDP, revised from -1.0% reported in August

Data: Commerce Dept.

(BURNS) NORM BETTS/BLOOMBERG NEWS; (LEWIS) SAUL LOEB/AFP/GETTY IMAGES

LEADERSHIP

KEN LEWIS BOWS OUT

Reason No. 53 why Ken Lewis wishes he hadn't bought **Merrill Lynch:** With Congressional outcry giving way to regulatory inquiries over whether **Bank of America** executives hid news of mounting losses and bonus payouts at Merrill, BofA announced on Sept. 30 that the embattled Lewis would retire as CEO at the end of the year. While the 62-year-old had signaled his intent to step down once BofA had repaid its bailout money and integrated Merrill and mortgage giant **Countrywide,** analysts believe Lewis' willingness to leave before those goals were met may have been influenced by the growing number of probes into the BofA-Merrill deal. BofA didn't name Lewis' successor, but most analysts are betting on **Brian Moynihan,** a former **Fleet Financial** executive.

"Bank of America's Lewis Stepping Down"
businessweek.com/magazine

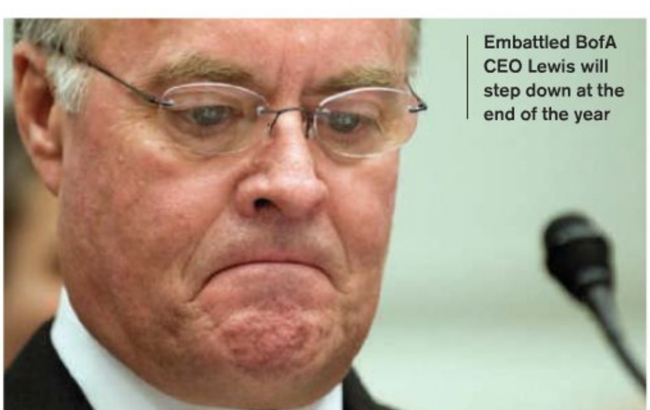
JP MORGAN'S SHAKEUP

Has **Jamie Dimon** picked a successor? In a rare executive-suite shuffle at **JPMorgan Chase,** CEO Dimon replaced long-time investment bank co-chief **Bill Winters** with **Jes Staley,** formerly head of asset management, and analysts promptly hailed him as the heir apparent. Staley brokered the bank's largely successful takeover of hedge-fund shop **Highbridge Capital Management** in July. Dimon, 53, is expected to stay at the bank for five more years. Winters' exit raised some eyebrows, since he was in part credited for deft management of the bank's large derivatives portfolio during the credit crisis.

ECONOMICS & POLICY

MERKEL WINS AGAIN

As one German tabloid put it: *"Angie hat ne neue!"* (Angie has someone new!) **German Chancellor Angela Merkel,** leader of the **Christian Democratic Union,** will govern with the pro-business **Free Democrats,** led by **Guido Westerwelle,** after voters gave the two center-right parties a majority in Parliament. The Sept. 27 vote brings an end to Merkel's



Embattled BofA CEO Lewis will step down at the end of the year

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Coverage not available everywhere. Data plan required. Connectivity dependent upon capability. The 3G Sprint Mobile Broadband Network reaches over 253 million people. Offer not available in all markets/retail locations or for all devices/networks. Other restrictions apply. See store or sprint.com for details. *PC World's* tests included 13 major cities with more than 20 tests per city from all regions of the country for each provider's 3G service. Testing was one minute in duration, and network performance can be highly variable from neighborhood to neighborhood. ©2009 Sprint. Sprint and the logo are trademarks of Sprint. Other marks are the property of their respective owners.

awkward, four-year forced marriage with the center-left **Social Democrats.** But Merkel probably won't be able to keep a promise to cut taxes until she deflates the deficit, now bloated by bank bailouts and stimulus spending. And even with a more compatible partner, analysts doubt Merkel has the grit to push through unpopular reforms, such as easing rules that make it tough to lay off workers.

"German Vote Sets Stage for Pro-Business Coalition" businessweek.com/magazine

THE SUPERYEN IS BACK

Japan's new **Finance Minister, Hirohisa Fujii,** will likely weigh his words more carefully in the future. After just two weeks on the job, Fujii told reporters that the government "basically" favors a strong yen and would not try to halt a sudden surge. Traders reacted by grabbing the yen and dumping the greenback, sending the Japanese currency to an eight-month high of 88.23 to the dollar on Sept. 28. Fujii later backpedaled, but his initial comments likely didn't sit well with Japan Inc. As the yen rises, it erodes the overseas earnings of major exporters such as **Toyota** and **Sony.** Analysts say it's possible that Fujii was signaling a shift in direction under new **Prime Minister Yukio Hatoyama.** The **Democratic Party**-led government has indicated that it wants to reform Japan's economy so that demand at home, not exports, becomes the main driver of growth.

THE G-20 SPEAKS

While it's true that news of a secret Iranian nuclear facility stole



Tokyo currency traders: Is the government happy with the yen's rise?

IDEAS HOW FACEBOOK COULD CASH IN ON ITS UPSCALE FANS

Facebook is the king of social networking. But the site is stuck with an old business model that may prevent it from turning the increasing affluence of its users into profits. Simply put: Facebook should charge, says *BusinessWeek* blogger Douglas MacMillan.



A recent study by **Nielsen Claritas** that divides 200,000-plus participants into three segments based on affluence showed that 25% of the top tier were more likely to use Facebook than the bottom tier. In the lowest segment, 37% were more likely to use **MySpace.**

Not only has Facebook won over many younger users of MySpace but it has introduced social networking to people in their 20s, 30s, 40s, and older. As the Nielsen Claritas study hints, these users have jobs and bank accounts, and might be willing to shell out a few bucks a month for an increasingly valuable tool. Facebook has shot down the idea of charging all of its members. But the site may have plans to put a price tag on services, such as offering to print the millions of photos people upload to the site. It could also charge a nominal fee, like $1 per month, to let members avoid ads.

The company reports positive cash flow and talks up bold advertising initiatives. But is it building a business that taps the deep pockets of its users?

"Facebook Users Can Afford to Pay" businessweek.com/magazine

YOSHIKAZU TSUNO/AFP/GETTY IMAGES; ILLUSTRAITON BY BRIAN STAUFFER



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Empowered by Innovation NEC



French bank BNP is looking to sell stock in order to pay back the state

what modest thunder the **Group of 20** meeting produced, heads of state from 20 major economies did make some headway on Sept. 24-5. They annointed the G-20 as the "premier" group for economic coordination, supplanting the G-8. They called for rules on executive pay that would tie it more closely to performance but stop short of an actual bonus cap. And they again proposed tighter bank capital requirements, though they left it to a panel to hash out the details in coming months. Critics carped that a plan to "rebalance" global consumption, boosting U.S. saving and Chinese domestic demand, was vague and dependent on voluntary compliance, which has failed in the past.

"World Leaders Commit to Rein in Financial Bonuses" businessweek.com/magazine

PUBLIC OPTION, R.I.P.?

A vital element of **President Barack Obama's** original health-care reform proposal may have taken a fatal blow on Sept. 29. Two amendments proposing a publicly funded insurer went down to defeat in the **Senate Finance Committee.** However, a second Senate committee and the House are both expected to issue bills containing a public plan. And since Americans support such a plan by wide margins, saying it would provide much-needed competition for private insurers, there remains a slim chance some sort of federal insurer will make it to a final bill.

| BW | PAGE 026 "Why Business Fears the Public Option"

FINANCE

FDIC TO BANKS: PAY UP

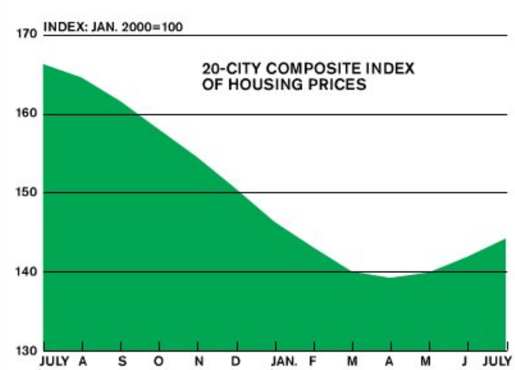
True, the **Federal Deposit Insurance Corp.** is about to run its main insurance fund into the red—but it's not really a problem, said the FDIC on Sept. 29. The continuing flood of bank failures means the fund balance will soon be negative from an accounting perspective, but the FDIC expects premiums paid by banks to close the gap over time—like a family with strong income but a negative net worth due to mortgage debt. To avoid a cash crunch early next year, however, the agency proposed collecting three years' worth of premiums from banks, about $45 billion, up front on Dec. 30. The beauty part: That wouldn't dent bank earnings or force them to raise more capital to meet reserve requirements. A decision is likely after a 30-day comment period.

| BW | PAGE 028 "The FDIC's Gift to Banks"

BNP'S BIG PAYBACK

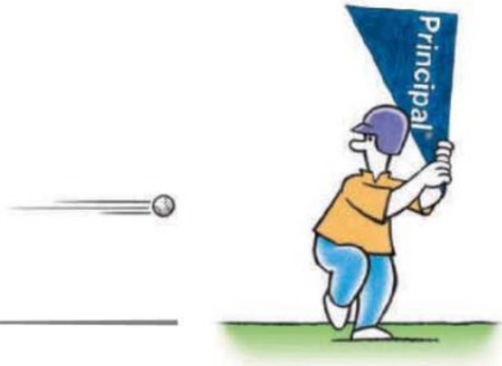
U.S. banks aren't the only ones pushing to get out from under the government. France's **BNP Paribas** said on Sept. 29 that it would sell $6.3 billion in stock and use the proceeds, along with other funds, to buy back a $7.5 billion stake that the French state bought to shore up the bank earlier this year. Others in Europe are likely to follow BNP's example as stronger equity markets make it easier to raise money. A few hours after BNP's announcement, Italian bank **UniCredit,** in a bid to boost capital reserves, said it would sell $5.8 billion in shares rather than buy government-sponsored bonds.

TENTATIVE RECOVERY



Data: S&P/Case-Shiller Home Price Indices

REGIS DUVIGNAU /REUTERS



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Need a recession cure? Japan is the right prescription.



As the world attempts to climb out of economic crisis, where are proactive companies focusing their gaze? East, to an old reliable hotbed of innovation and development — Japan. As one of the world's true economic superpowers and the gateway to Asia, Japan has the goods, the infrastructure and the right climate for rebirth and growth.

A recent report by the Japan External Trade Organization (JETRO) cited several key areas where Japan offers overseas investors and businesses an ideal playing field for development and partnership. It's no wonder Japan's investment in R&D as a percentage of GDP is higher than any other advanced nation. Let's take a look at some of the opportunities for growth in the post-crash era.

Today, Japan is sponsoring some of the world's most exciting research and development in emerging, and reemerging industries, including environmental technology or "ecobusiness," information and communications technology (ICT) and healthcare.

Global warming and environmental protection are on everyone's watchlist these days. Not surprisingly, Japan is number one in terms of ISO14001 certifications and is among the world leaders in energy-saving technology patents—registering three times as many as the U.S.A. or Europe in 2007.

With high regard for the "3 R's," reduce, reuse and recycle, and energized by R&D in fuel cells, photovoltaic power generation and waste treatment, Japan's ecobusiness market is expected to grow to U.S. $483 billion by 2010 and U.S. $596 billion by 2020.

Seeking an ICT connection? Text Japan. From mobile phone hard- and software to GPS and navigation systems technology, Japan is a world leader in ICT development. Forward-thinking companies wishing to test mobile products have their sites trained on Japan first. The country's ICT industry includes six market segments: mobile phone services, IC cards and radio frequency ID technology (RFID), visual communications, online marketing, games, and public services.

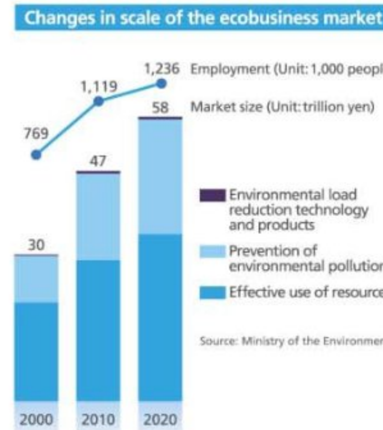
Today, ICT is Japan's largest industry, with a value of more than U.S. $1 trillion. And Japan features some of the world's fastest broadband connection speeds and the highest Internet penetration rates as well as the world's most advanced integrated mobile communication and IC payment services.

IT is always in fashion, but as the advanced countries of the world turn gray, healthcare, medicine and biotechnology are becoming important growth industries. Japan's biotechnology market is second only to the U.S.A.'s, but it's growing fast.

In addition to deregulating the pharmaceutical industry to welcome foreign competition, the Japanese government has launched a comprehensive research-support initiative called the National Bioresource Project. Its goal is to achieve one of the world's most extensive collections of biogenetic resources by 2010.

Whether it's healthcare, ecobusiness or ICT, Japan has the right medicine for economic recovery. And more than ever, overseas businesses are realizing that success in Japan is a touchstone for success in Asia.

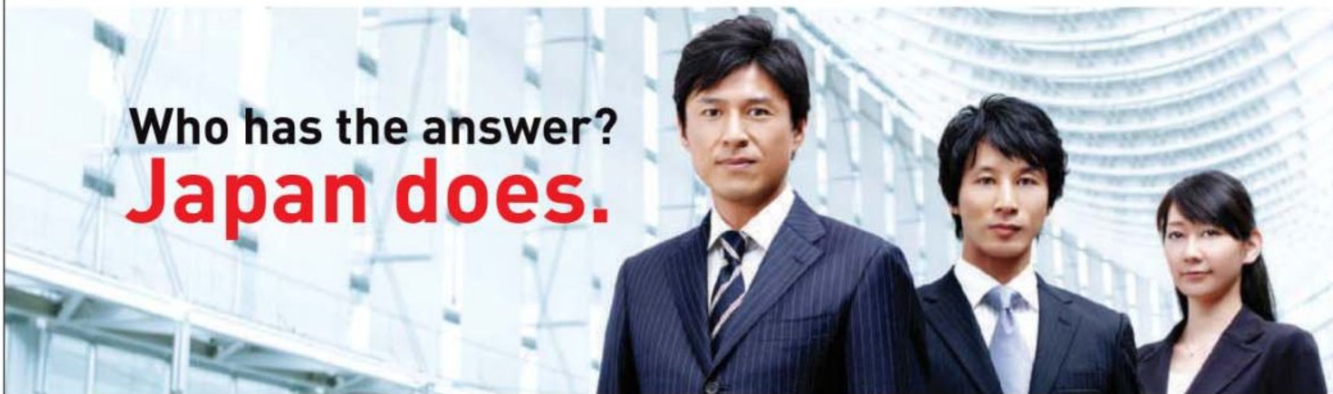
Changes in scale of the ecobusiness market



METI
Ministry of Economy, Trade and Industry

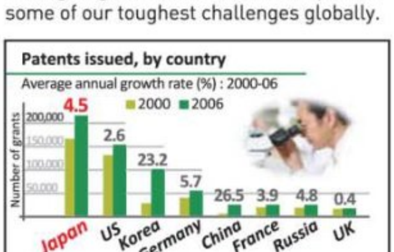
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www.jetro.go.jp/en/invest/



An Original Approach to Success

Innovation. More than any other factor in business, innovation drives the global economy to produce sustainable growth and long-range profitability. And when investors from around the world look for the innovations that will shape the future of business and society, they turn to Japan. Firms in Japan are continually pushing the boundaries of technology, from automotive to communications to bioscience. In 2006 alone, over 200,000 patents were issued to Japanese researchers, nearly 40% more than the US, and more than the other six G8 nations combined. Investors and consumers alike are reaping the rewards of these discoveries. One company that has seen the benefits of accelerating the growth of its "innovation partnerships" in Japan is General Electric (GE). Today, the company is working closely with Japanese partners to fast track the creation, development and commercialization of new technologies ranging from OLED (energy efficient lighting technology) to more eco-friendly healthcare products. Their collaborative efforts are helping develop the next generation of cutting-edge solutions that will help solve some of our toughest challenges globally.



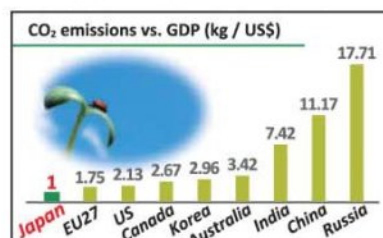
Source: 2008 WIPO World Patent Report

Unique Ideas in Every Corner

Regardless of field or scale, technology and manufacturing firms across Japan place top priority on research and development. As a percentage of GDP, Japan spends over 35% more on R&D than the US, and more than 2.5 times that of China*. This commitment to future innovations, involving the cooperative efforts of businesses, universities and government research facilities has consistently placed Japan ahead of the curve on technological breakthroughs that have launched new products and services for the world market. One practical example of this is Smart Grid, an energy distribution concept that uses sensor and communications technology to intelligently reduce energy consumption and costs.

Green Thinking

Today, environmental concerns are foremost in the minds of consumers and businesses alike. Japan has seized the initiative and has now taken the lead in the growing wave of 'green thinking', developing cleaner manufacturing processes, alternative energy sources, more efficient devices and improved recycling techniques. The results of this commitment to the environment have been unmistakable: Japan currently produces less CO_2 per dollar of GDP than any other industrialized nation, and firms throughout the country continue to invest heavily in minimizing their environmental footprint. These factors make Japan the perfect choice for those looking for the next generation of eco-technology. GE is working together with Japanese firms, from large established manufacturers, to small and medium enterprises and small technology research centers to meet the goals of its ecomagination initiative. Launched by GE 5 years ago, ecomagination, is a company-wide initiative designed to help meet customers' demands for more energy efficient products and to drive reliable growth for the company. It also reflects the company's commitment to invest in a future that creates innovative solutions to environmental challenges. For GE, Japan has already proved to be a spawning ground for new technologies and ideas and the future for its "innovation partnerships" looks bright. For example Japanese innovation has led to the creation of a cutting edge healthcare product, 'Signa HDe 1.5T', the first ecomagination-certified MRI (magnetic resonance imaging technology used in radiology), which was developed in Japan for Japanese customers who require high standards and prioritize quality products. Signa is now a global success story for the business with the majority being produced for export.



Source: IEA (2008), "CO_2 emissions from fuel combustion 1971-2006"

Investing in Innovation

In July, Japan announced the formation of the Innovation Network Corporation of Japan, a public-private joint venture to create a $10 billion stimulus for small and medium-sized firms in developing and maturing industries, including energy, healthcare and the environment. GE is the only non-Japanese founding member among the 16 private firms who chose to support the initiative to aid the rapid development and commercialization of technologies that will be essential to creating a sustainable future society.

*Source: JETRO, "10 Advantages to Investing in Japan," 2009.

Success Begins with Innovation

INVEST JAPAN

METI Ministry of Economy, Trade and Industry

JETRO Japan External Trade Organization

For more information, visit: www.jetro.go.jp/en/invest/

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FACETIME | MARIA BARTIROMO





(TOP) BRAD TRENT; (BOTTOM) ALESSANDRA BENEDETTI/CORBIS

HOW BRAZIL'S LULA SEES THE EMERGING WORLD ORDER

As President, Luiz Inácio Lula da Silva has brought to Brazil a blend of capitalism and populism that is taking Latin America's largest economy to new heights. I talked with Lula, as he is popularly known, after the gathering of the U.N. General Assembly and right before the meeting of the G-20 in Pittsburgh.

MARIA BARTIROMO

What are you looking to achieve at these meetings?

PRESIDENT LUIZ INÁCIO LULA DA SILVA

We have an opportunity to do things we haven't done in the past. There was a time when the world started to believe that the markets didn't need any kind of regulation. Anyone could invest money as they wished. The banks could do whatever they wished. I don't want the president [of a country] or the state managing the economy. But I want government to drive economies and be a regulator at the same time. One of the reasons for the global economic crisis was the [behavior of] the banks, especially in the U.S. They had no parameters on leveraging their loans. When a bank leverages an amount of money that is many more times its net worth, I say this bank is lending money that it doesn't have. Thank God, in Brazil we have a financial system that is highly regulated.

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You can only leverage 10% of your net worth. So when the crisis came, Brazil had sound and strong institutions to confront it. Now the G-20 has the opportunity to rethink the role of the government. It's very easy to govern when everything is going smoothly. But leaders exist to govern in the face of difficulties.

In Brazil, we had no credit to finance used cars. And I told the Bank of Brazil, the state-owned bank, to buy a private bank that had expertise in financing used cars. For what reason? We wanted credit to continue flowing. This is the sort of time you need the state. My concern with the G-20 is that the leaders are now becoming [complacent] because the crisis is passing and they won't change anything. We have to change. We have to change the role of the IMF and the World Bank. And we have to control the international financial system so [financial institutions] cannot leverage many times more than their net worth. It's difficult because each [leader] has [his or her] own domestic public. But if you're a leader, you have to think what will help solve the world's problems.

But do you worry that we could have too much regulation and too much government ownership of business?
I don't want too much government or minimum government either. Brazil has found a middle path. When a major company wants to make an investment in Brazil, [we have discussions] about what region would be [appropriate for] the investment. Why? So we can encourage regional development. That's the role of the government. I think we learned a lesson from the global crisis. Remember when oil went to $150 a barrel. Soy beans also went up. There was a commodity bubble. That was investors getting out of the subprime market and rushing to the futures markets for food and oil. Otherwise, there is no explanation for oil going from $30 up to $150 in such a short time. We cannot allow this kind of speculation because this harms the poorest people in the world. It brings damage to job creation. We want the welfare of society to grow together with the economy. Otherwise, the economy grows for only half a dozen people.



A rig in Rio's Guanabara Bay: Lula says that oil money will be used to eradicate poverty

DAVID SILVERMAN/GETTY IMAGES

Can you talk about Brazil's strengths, such as agriculture and oil?
Brazil has extraordinary possibilities because we have one of the largest land [masses] in the world available for agriculture. Just to give you an idea, the sugarcane that produces ethanol takes up less than 2% of all land in Brazil. But we have to be careful that prices [of agricultural commodities] don't go beyond the purchasing power of the people that need food.

> We want the welfare of society to grow... with the economy. Otherwise, the economy grows for only half a dozen people

Now, on the oil issue, I believe the price should be stabilized. [The cost of] oil should not strangle countries. Brazil already is self-reliant on oil. We just discovered great deposits of deep-sea oil fields—huge reserves at 7,000 meters of depth. [The oil money] will be used to invest in education, science, and technology so we can end poverty and solve chronic problems. We don't want to sell crude oil. We want to sell added-value products. That's why we are building new refineries. We want to sell gasoline.

MANAGING FORWARD
THE RESET ECONOMY
Getting ready for the post-recession world

How is Brazil's economy doing?
We have a lot to do, but Brazil is experiencing a magical economic moment. This global crisis hampered us, and I had to ask the people to buy more because the newspaper headlines almost created panic. But the economy grew 0.9% in the second quarter, and it can grow around 5% in 2010. We are developing a strong policy of income transfer to the poorest of the population. We made a commitment to build 1 million new houses for low-income [families]. We have almost $359 billion in infrastructure projects. From 1950 to 1980, Brazil grew at over 7% a year; one year 14%—more than China today. Nevertheless, what happened? There was no income distribution. The rich became even richer. The poor became very poor. Now we have reversed this game. We want to leverage the poor. The better off the poor are, the more we improve the lives of the business community. | BW |

Maria Bartiromo is the anchor of CNBC's Closing Bell and writes the blog, Maria Bartiromo's Investor Agenda, at investoragenda.cnbc.com

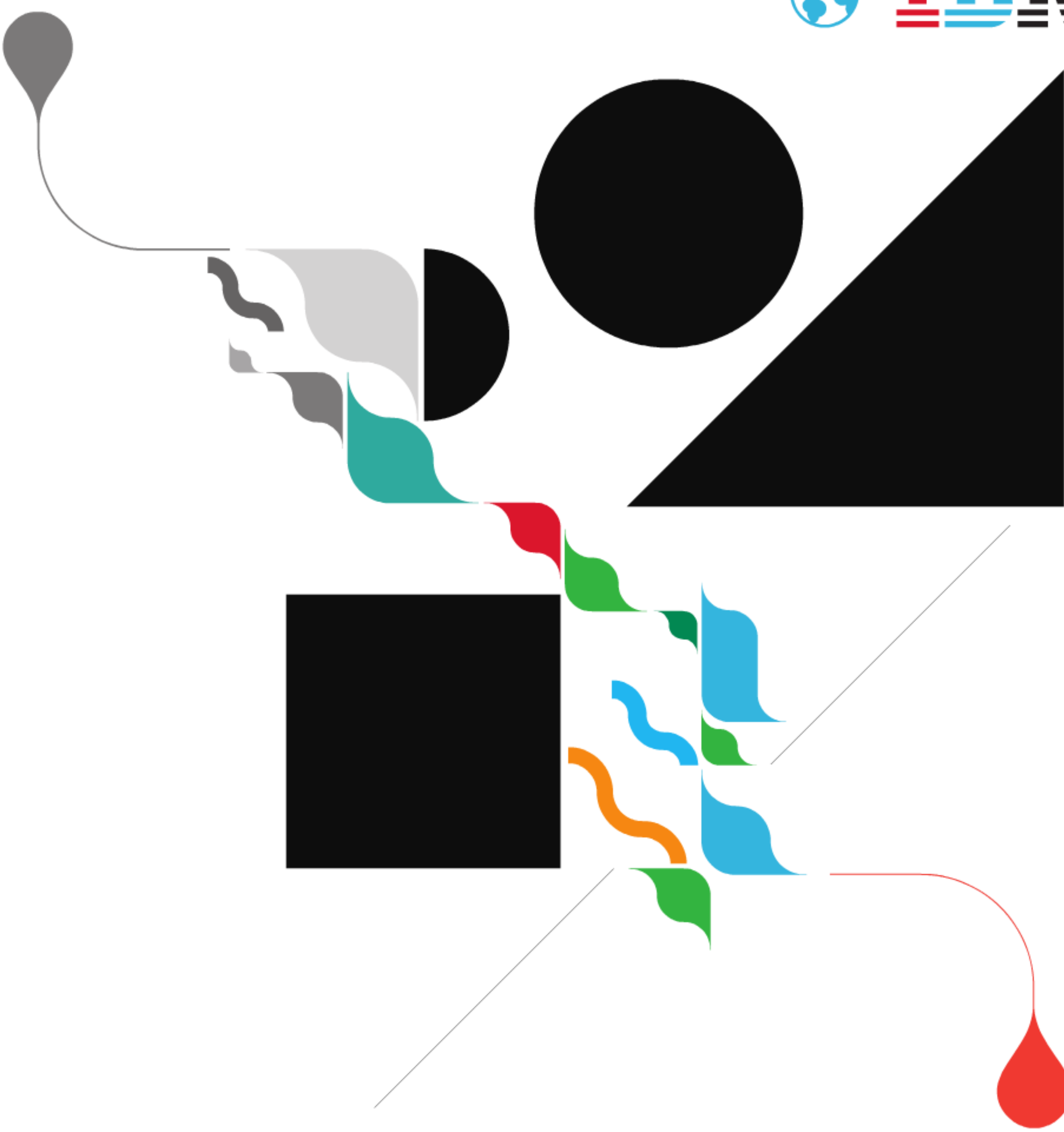
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MANAGING FORWARD

THE RESET ECONOMY *Getting ready for the post-recession world*

BY JOHN CAREY



Darbee is betting PG&E can make money by selling less power to its customers

ROBERT HOUSER

REWIRING THE UTILITY BUSINESS

Peter A. Darbee used to dock his three children 50¢ when they left a room without turning out the lights. Now, as CEO of PG&E , the former investment banker and high school wrestling champion is trying to save energy on a grander scale. Paradoxically, he is helping his customers buy less of his product. "When I tell big customers we would be happy if we sold them less electricity, they look at me like I've burned out a few brain cells," says Darbee. But the logic is inescapable. "You are not making a lot of money anymore building large power plants," says Jon Wellinghoff, chairman of the Federal Energy Regulatory Commission. "You have to figure out what business you are in, big time."

How can utilities make more by selling less? Instead of spending $2 billion on a new 1,000-megawatt power plant, it can use the money to insulate homes, pay customers to install more efficient equipment, and make the grid smarter. Those steps would slash power consumption, eliminating the need for the power plant.

The CEO would then ask the state public utility commission to raise electricity rates enough to pay for the $2 billion investment—plus a negotiated profit—just as he would for a new power plant. If the commission agrees, the utility gets revenue from its investment.

At the same time, customers' bills may go down. The reason: Even though the price of electricity will be higher, customers who comply will be using much less power—and those who don't will effectively subsidize those who do. "Energy-efficiency programs cost electricity customers less than half what they pay to help fund a new power project," explains Darbee. Boosting efficiency also reduces greenhouse gas emissions, which will provide another monetary gain for utilities if the nation puts a price on such emissions (page 55).

PG&E has spent hundreds of millions handing out energy-efficient light bulbs and performing energy audits for companies to identify potential savings. In return, the California public utility commission has granted PG&E an extra payment representing a share of the energy savings. On Sept. 24, California approved $3.1 billion in additional spending on energy-efficiency efforts by the state's utilities. Other states are taking similar steps. "This is where we will make our money in the future," says James E. Rogers, CEO of Duke Energy. "The business model fundamentally changes in the 21st century."

Success isn't a sure bet. "Some regulators have not yet understood and embraced this," says Darbee. "It really entails stepping through the looking glass." What's more, the same innovations that produce efficiency gains also bring competition. A number of companies have sprung up to work directly with customers to save energy, snaring the profits that come from efficiencies. And utilities will face rivals on the power generation side as entrepreneurs develop solar, wind, or other sources for homes and businesses that may be as common as refrigerators. "I've got to believe that energy production and storage [systems] become commodities," says Ralph Izzo, CEO of Public Service Enterprise Group, a New Jersey utility. "It would completely eliminate the utility as a monopoly."

As a result of these pressures, many companies will suffer the fate of the dinosaurs, says industry consultant Roger W. Gale. David Crane, CEO of NRG Energy in Princeton, N.J., acknowledges the threat: "If we are not doing things completely differently by 2030, we will be in a world of hurt," he says. | BW |



THE RECOVERY: IT'S THE HERD VS. HISTORY

A growing consensus predicts a weak rebound from the recession, but that would go against both the latest data and a trend dating back nine business cycles

There's an old saying in economic forecasting: The consensus is always wrong. But which way? The average forecast of the 52 economists surveyed by *Blue Chip Economic Indicators* calls for growth in real gross domestic product of 2.7% over the next four quarters, with the annual rate in any single quarter no greater than 3%. This early in the recovery, it's tough to argue that the consensus is either too pessimistic or too optimistic, but one thing is clear. The herd does not think the past tendency of strong recoveries to follow deep recessions will hold true this time. For example, in the first year after the severe slumps in 1973-75 and 1981-82, real GDP grew 6.2% and 7.7%, respectively.

The correlation between the depth of recessions and the strength of recoveries over the last nine business cycles is unmistakable. It relates to the extent of the cuts businesses make in output, payrolls, and inventories. It also reflects the amount of pent-up demand created as consumers and businesses postpone spending. Like a rubber band, the economy snaps back in proportion to how far it was pulled down, as consumers finally upgrade old laptops and buy new clothes, and businesses replace inventories and worn-out equipment.

1.9

Average number of quarters for GDP to regain its business-cycle peak in the past nine recoveries

Data: ITG, *BW*

If the consensus is right, the economy's departure from past experience would be striking. Economist Robert J. Barbera at the research and trading firm ITG notes that after each of the past nine recessions, deep or shallow, real GDP has never required more than three quarters to regain its peak level prior to the downturn. If GDP staged a full recovery over the next three quarters, the economy would grow at a 5.4% annual rate. Even stretched over four quarters, the pace would still be 4.1%.

The common argument is that the usual rebound effect will be limited by the aftershock of the financial crisis: Credit growth is plunging, because households need to unload debt and save more amid lost wealth and tight credit, limiting the business sector's response. However, that's no sure thing. Data on credit flows are not particularly useful for predicting the strength of a recovery, according to economists at Barclays Capital. They note that in the strong upturns of the 1970s and 1980s, consumer spending accelerated well before the upturn in consumer credit.

Early in recoveries, the growth of household income is a more important impetus to spending than credit. As job losses fade, pay from wages and salaries, about 60% of aftertax income, will turn up, as it did in July for the first time in nine months. Also, a lot of spending is done by households and businesses that either don't need to borrow or have good credit quality.

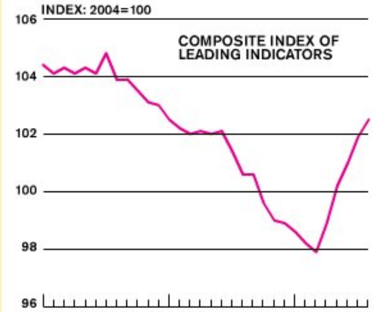
The recovery's oomph will also turn on how much income households feel they need to put away to eliminate debt and restore nest eggs. A rising saving rate weighs heavily on the growth of consumer spending. However, with savings in the second quarter already at 5% of aftertax income, up from 1.2% in early 2008, the saving rate may be about as high as it needs to go to give households the cushion they want.

Historically, saving behavior loosely tracks the ratio of household income to wealth. As that ratio rises, in this case because of plunging stock prices and home values, so does the savings rate. By the second quarter the ratio had risen to the levels of the early 1990s, when the saving rate was about 6%, close to where it is now. Moreover, households in the second quarter recovered $2 trillion of the $14 trillion in net worth lost during the recession, and rising stock and home prices imply another gain of about $2 trillion this quarter.

So far, the raft of surprisingly positive data in recent weeks supports the more upbeat recovery scenario. In particular, the index of leading indicators, a composite of 10 gauges that tends to foreshadow recessions and recoveries, has turned up sharply (chart). Since March the index has grown at an 11.7% annual rate, the fastest five-month pace since the 1981-82 recession.

For now, none of this will change the minds of the more pessimistic forecasters. However, the historical pattern is on the side of the optimists. | BW |

A KEY RECOVERY GAUGE REBOUNDS STRONGLY



Data: Conference Board, IHS Global Insight

BRAD TRENT; CHART BY LAUREL DAUNIS-ALLEN/BW

NUMBERS

RENEWABLE ENERGY IS STILL STRUGGLING TO GAIN GROUND

By Tara Kalwarski/Charts by Laurel Daunis-Allen

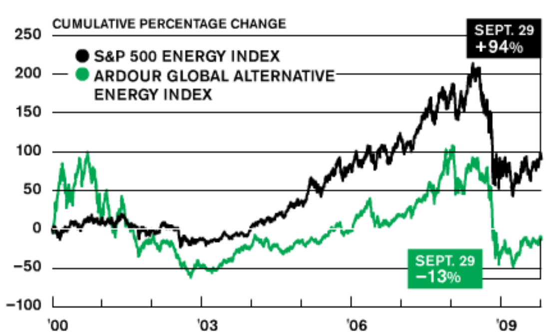
Americans are using less renewable energy as a share of their total energy consumption than they did in the early 1980s. And the oldest forms of renewable energy, water and wood, are in decline. Since 2000, alternative-energy companies' shares have risen far less than those of traditional energy companies.

17¢

High-end price per kilowatt-hour of energy from large solar-power plants, factoring in all costs over its lifetime, in 2007. 2020 estimate: 7¢.

Data: Energy Information Administration

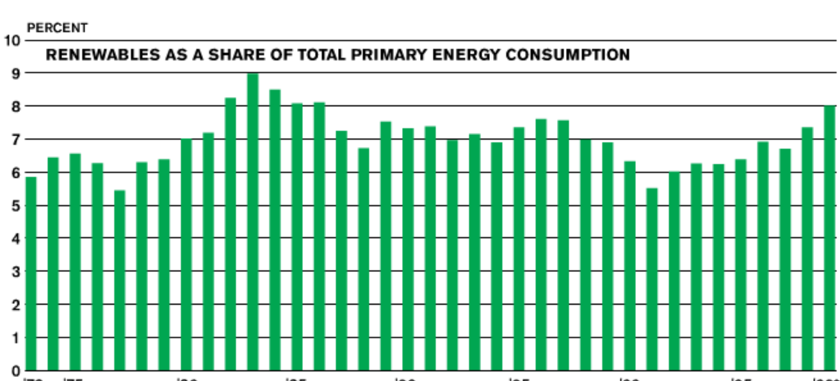
Lackluster: An index that tracks 30 of the largest alternative-energy stocks is down 13% since its launch vs. a 94% gain for big energy companies.



Data: Bloomberg

POWERING UP?

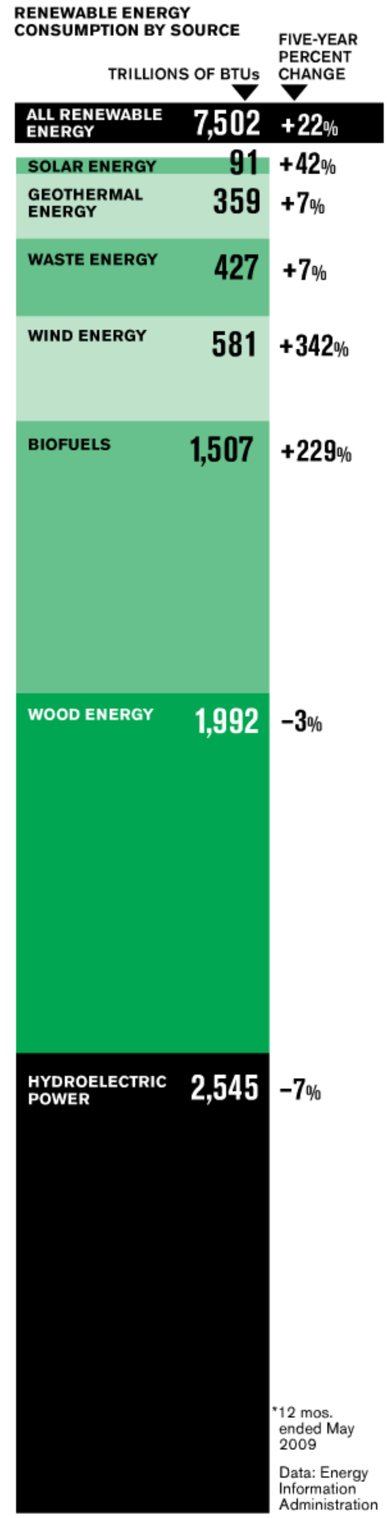
Renewable energy has so far accounted for more than 8% of energy consumption in the U.S. in 2009 but remains below its 1983 peak of 9%.



Data: Energy Information Administration

*Through May

Hot Stuff: Wind has been the fastest-growing form of renewable energy over the past five years.



Data: Energy Information Administration

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JACOB THOMAS

LUDDITES OF THE WORLD, RELAX!

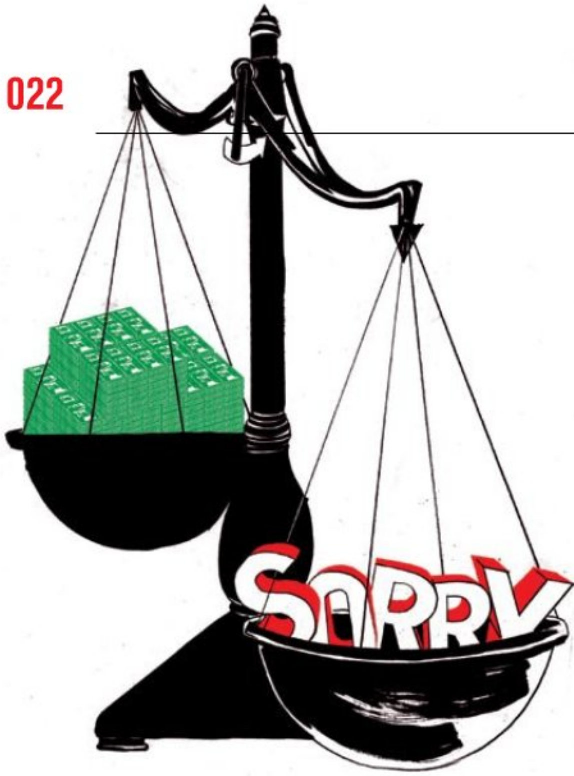
News that Twitter's latest cash infusion values the microblogging site at $1 billion may have confounded twittering's critics, who say nothing worthwhile can be expressed in 140 characters. To them—and to those who think BlackBerrys enslave us, Facebook supplants real relationships, and texting makes us illiterate—Dennis Baron has this to say: Nonsense. Worries about new ways of communicating, he has found, have existed for millennia. (Socrates objected to writing, in part because this "invention" eliminated the need to exercise the memory.)

Baron, an English and linguistics professor at the University of Illinois Urbana-Champaign, has just published *A Better Pencil: Readers, Writers, and the Digital Revolution* (Oxford University Press). One reason he wrote the book, he says, was to remind today's Luddites of the skepticism that reliably greeted each new communication device in the past.

Consider the mid-19th century's Twitter: the telegraph. About America's "great haste" to establish instant transcontinental communication in the 1840s, Henry David Thoreau scoffed: "Maine and Texas, it may be, have nothing important to communicate."

Three decades later, the telegraph's inventor, Samuel Morse, declined to buy the patent rights for the next new thing—the telephone. It provided no permanent record of a conversation, he complained. In 1880, Western Union refused the offer, too, asking "whether any sensible man would transact his affairs by such a means of communications." When the typewriter came into widespread personal use in the 1930s, *The New York Times* editorialized against the machine on the grounds that it usurped the art of "writing with one's own hand." And, Baron writes, "because typing resembled printed texts, critics groused that typewriters gave too many would-be writers access to authorship," an argument that should sound familiar to today's blog bashers.

Baron acknowledges that we don't know what the long-term social and cognitive impact of the computer revolution will be. But he's clearly on the side of the technophiles. To people who don't "get" Tweets, he has this advice: "Just think of them as little haikus." *–Ellen Gibson*



WHY IT PAYS TO APOLOGIZE

What's the best way for a company to disarm a disgruntled customer? A simple apology beats a cash rebate, according to a new study.

Researchers at Britain's Nottingham School of Economics worked with a large German wholesaler that sells goods on eBay, tracking the lukewarm or negative comments posted on the site by the company's customers over six months.

They then responded to the 632 complaints—about defective salt shakers, say, or the late delivery of a leather belt. Half of the e-mailed responses offered a brief apology. Half offered instead a "goodwill gesture" of a small cash rebate (from $3 to $8). All the e-mails asked the customers to remove the comments they had posted online. For those offered the rebate, it was a condition of receiving the cash.

The result? About 45% of customers who received an apology withdrew their so-so or negative ratings, compared with 21% of those offered money to do so.

Johannes Abeler, a Nottingham research fellow and co-author of the study, says it's worth noting that the e-mailed apologies were effective even though they were brief and impersonal—and asked for something in return. His explanation? Despite the suspicions people might harbor, "apologies trigger this biological instinct to forgive that is hard to overcome." *–Douglas MacMillan*

OUT OF THE DUSTBIN OF HISTORY

Sharing space with the greenest and sleekest at the just-concluded Frankfurt Auto Show: an electric-powered remake of the Trabant, the boxy, smoke-spewing car produced in East Germany from 1957 to 1991. "It's a historic car," says Ronald Gerschewski, managing director of Wilkau-Hasslau IndiKar, the company behind the Trabant nT, still in prototype. Nostalgia for the old Trabi runs high—especially now, as Germany prepares to mark the 20th anniversary of the fall of the Berlin Wall. IndiKar and co-developer Herpa, which sells miniature Trabi models, are seeking investors to bring the car to market as early as 2012.

–Moira Herbst in Berlin



A vintage Trabant at the Berlin Wall



A BREAK FROM THAT FIRST COMMERCIAL BREAK

Will fewer commercials translate into better ratings—and, thus, higher ad revenue—for ABC's new fall lineup? The Walt Disney-owned network is omitting the first ad break for the initial few episodes of some of its new shows, including the sci-fi drama *FlashForward* and two comedies, *Eastwick* and *Modern Family*. The idea is to draw viewers deeper into the story so that when the first commercial does come—after 15 minutes rather than the usual eight—they'll be less tempted to switch away. ABC executives say that if the ratings and advertiser response are good, they may cut out the ad break—adding extra minutes to the show itself—all season long. Marketing and media consultant Dennis Keene says while networks have no control over how engaging commercials are, one thing they can do is reduce the total number of ads "in the hope that engagement scores for the remaining ads get better." *–David Kiley*

(CLOCKWISE FROM TOP LEFT) ILLUSTRATION BY JACOB THOMAS; PHOTOGRAPHS BY HERMANN BREDEHORST/POLARIS; IMAGE SOURCE PHOTOGRAPHY/VEER

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A FRAYING LIFELINE FOR HOMEOWNERS

Lenders are reining in short sales aimed at helping troubled borrowers

By Christopher Palmeri

Troubled homeowners may be losing a major lifeline: so-called short sales. To get bad loans off their books and spur home sales, lenders have been forgiving the difference between the outstanding mortgage balance and the purchase price. Banks were never eager participants in short sales, and now financial firms—even those that can offload losses to the government—are balking at such transactions. Some lenders are forcing the sellers to pay extra money at closing. Others want a promissory note for part of the amount due.

The situation could be a setback for the already wobbly housing recovery. A record one-third of borrowers owe more on their mortgage than their properties are worth, notes research firm First American CoreLogic. The number of underwater homeowners will only continue to rise since values are still falling. And if distressed borrowers can't negotiate short sales, more may be forced into foreclosure, further depressing prices.

12%

The amount of existing home sales that are short-sale transactions

Data: National Association of Realtors

Since the housing bust, short sales have been a key part of the market. They accounted for 12% to 18% of national home sales over the course of this year. In such hard-hit areas as Miami and Phoenix, roughly a third of listings involve underwater mortgages, according to real estate brokerage ZipRealty.

Both sellers and lenders have seen short sales as a preferred option to foreclosure. The deals are less damaging to a borrower's credit. For banks they're generally cheaper. Homes in short sales fetch more than foreclosed properties. And lenders



often have to pay tens of thousands of dollars in legal and maintenance expenses on distressed properties.

But some banks are changing their stance. With profits improving and access to capital loosening, lenders can afford to play hardball. Today banks take 9.5 weeks to respond to short-sale requests, vs. 4.5 weeks a year ago, says research firm Campbell Communications. "When the banks couldn't make payroll, it was a lot easier to deal with them," says Jake Naumer, an adviser in St. Louis who has negotiated with lenders on behalf of homeowners. "Now they want to extract every nickel." Lenders argue they have every right to pursue the money they're owed.

Las Vegas real estate agent Rob Jenson lost a deal after lenders dragged their feet. In April, buyers agreed to pay $747,000 for a five-bedroom

DAN PAGEW



Spanish-style home, the owner of which had $1.3 million of loans on the property. Jenson contacted the lender, Bank of America, about forgiving the remaining amount. BofA responded four months later, saying it wanted an additional $19,000 in cash from the seller, or a $38,000 promissory note payable over 10 years. Says a BofA spokesman: "A selling homeowner may be expected to reasonably participate in the shortfall on a sale, unless a financial hardship is demonstrated."

SOROS AND DELL

When the homeowner wouldn't come up with the money, Jenson agreed to give the bank $7,500 of his commission. BofA agreed to the terms. But by then the buyer had walked away. "They're losing more money in the long run," says Jenson.

As a policy, OneWest Bank requires borrowers who sell their homes for less than the mortgage to pay part of the difference. One West, formerly IndyMac Bancorp, was taken over last year by the Federal Deposit Insurance Corp. and purchased in March by a group of investors that includes billionaires George Soros and Michael S. Dell. As part of that deal, the FDIC agreed to eat most losses after the first $2.5 billion. Given the government's broad support of One West, some real estate agents and sellers are frustrated that the lender wants a promissory note—especially in cases where the government is picking up some losses.

The lender is currently reviewing its short-sale policies. In one recent deal, One West agreed to forgo a $75,000 promissory note from the seller, 48-year-old Chris Fox, an unemployed consultant in the hospitality industry. But it did so only after Fox complained on a local TV station in Phoenix. "It drives me up a wall," says Robert G. Hertzog, Fox's real estate agent. "They were holding my client hostage." The short-sale transaction is set to close in late October. One West says it services the loan but doesn't own it, and therefore the government isn't on the hook for related losses.

The chain of creditors may be complicating short sales. If a borrower has two mortgages on a house, both lenders must approve the transaction. And the banks that hold second mortgages may be getting tougher, as their stakes get wiped out by sharply reduced property values. Bob Dalsimer, an agent in Irvine, Calif., says BofA used to accept a token amount to relinquish its claim on a short sale where it held the second mortgage. Now it's asking for 5% of the sale proceeds.

Sellers have little defense for now. Although some states prevent banks from pursuing additional claims against owners in foreclosure, there are no such rules in short sales. "We really need a more organized process," says Guy Cecala, publisher of *Inside Mortgage Finance*, a trade publication. In mid-May, Treasury Secretary Timothy Geithner proposed rules to encourage the transactions, including government payments to the lenders. People familiar with the matter say new federal rules could be imminent.

Borrowers who can't sell their homes often fall deeper into a hole. James Rosenthal, a 51-year-old Los Angeles film editor, has been trying to sell his house in a short-sale deal for more than a year. The servicer, One West, keeps misplacing his paperwork, he says. With income drying up, Rosenthal has fallen behind on his loan. One West says the mortgage is not eligible for federal reimbursement, and it would never intentionally delay a short sale.

In the meantime the missed mortgage payments, taxes, and late fees are piling up; as a result, Rosenthal's mortgage has ballooned by $40,000, to $425,000. "To have the government recapitalize [the lender] and get nothing in return..." he says. "The programs just aren't working" for homeowners. |BW|

WHY BUSINESS FEARS THE PUBLIC OPTION

Executives contend that it will lead health-care providers to charge patients in private plans higher rates

By Jane Sasseen and Catherine Arnst

The Obama Administration's proposed overhaul of the U.S. health-care system—and the possible creation of a publicly managed insurer—has unnerved much of the business community. Business lobbyists don't buy the White House line that reform plans will reduce the explosive growth in health-care costs. Instead they see Obamacare shifting much of the cost of extending coverage to 45 million uninsured Americans onto the backs of major companies and private insurers.

To understand why, you have to wade into the murky waters of a debate over an alleged industry practice called cost shifting. The U.S. Chamber of Commerce and the National Association of Manufacturers contend that Uncle Sam has long underfunded public health programs such as Medicare and Medicaid. That has prompted hospitals to jack up the rates they charge patients with private insurance to make up any losses. Insurers then pass those costs to companies in the form of higher premiums. But plenty of economists say such concerns are overblown.

If the government jumped into the health insurance field, this whole rob-Peter-to-pay-Paul dynamic would intensify, public option critics say. R. Bruce Josten, the U.S. Chamber of Commerce's top lobbyist, cites data that Medicare (which covers elderly Americans) reimburses just 78% of health-care providers' costs on average. The Medicaid program for low-income patients doles out even less. "The government doesn't try to reimburse at market rates, and that just results in a lot of cost shifting back to premium payers," he says. "So why would we want to let them set up a public plan that reimburses at those same rates?"

This line of attack, along with warnings that a public insurance option would crush private insurers and lead to a nationalized U.S. health-care system, has gained some traction. On Sept. 29 advocates of a public option failed to get it included in a key reform bill moving through the Senate. But Speaker Nancy Pelosi (D-Calif.) and her liberal allies have kept the idea alive in the three House bills still in play. It's unclear whether President Barack Obama will demand the inclusion of a public insurance option in any final deal.

In the end, a compromise bill is likely to allow for a publicly backed insurer later if promised cost savings don't occur. For now, Pelosi argues that creating a public insurance option could trim $100 billion from the cost of covering the uninsured. Proponents add that government competition would force private insurers to lower premiums, making coverage more affordable for all.

But the business community keeps cranking out studies undercutting such arguments. The insurance in-



THOMAS FUCHS

dustry trade group, America's Health Insurance Plans (AHIP), compared the lower reimbursement rates for health care paid by public programs vs. private payers. The group claimed the difference reflects cost shifting, which added an estimated $1,512 to the average premiums paid by a family of four. "The existence of the private sector allows that shift," says Karen Ignagni, the head of AHIP. "If you clamp down on one side of a balloon, the other side just gets bigger."

PRICE DISCRIMINATION?

Still, many economists suggest business is overstating the level of cost shifting. "This debate has a religious nature to it," says Rick Mayer, an associate professor of public policy at the University of Richmond. While a majority in the industry insists that cost shifting occurs, he says, "most health economists just don't believe in it."



He and others argue that hospitals and other providers aren't engaged in cost shifting as much as in price discrimination. Take that $1,512 difference claimed by AHIP. Critics such as Austin B. Frakt, a health-care economist at Boston University School of Public Health, say the assumptions behind that number are flawed. He argues there is no reason to assume that if Medicare reimbursement rates were to go up, hospitals would charge private insurers any less. Just as airlines charge different prices for the same seat, depending on when and how it is purchased, hospitals and doctors seek more money from private insurance plans than from Medicare. They don't do so because they must to avoid losing money but because they can. "If you have lots of market power, then you can demand higher payment," says Frakt, adding that most regions are dominated by just a few large hospitals.

The public option debate is essentially a tussle over who will shoulder the huge costs of covering 45 million uninsured Americans

A study by the Medicare Payment Advisory Commission (MedPAC), an independent panel that advises Congress on Medicare issues, bolsters Frakt's argument. The March report looked at historic pricing patterns and concluded that a hospital's market strength—not losses on its Medicare business—causes private insurers to pay much higher rates.

In the 1990s, says MedPAC, private insurers used managed care to curb cost hikes by hospitals, reimbursing only selected doctors and hospitals at predetermined rates. But by 2000 a backlash against managed care by doctors and patients, combined with consolidation in the hospital industry, gave hospitals the upper hand in rate negotiations, and costs began rising again.

Not surprisingly, hospitals with the most market power charged private insurers the most and had the highest overall profit margins, according to the study. By contrast, hospitals that were not able to demand higher payments from private insurers managed to stay in the black on Medicare payments by operating more efficiently, reducing errors, and keeping their costs in check—without any loss in quality of care.

A Congressional Budget Office report issued in December 2008, which also debunked the notion of cost shifting, suggested that hospitals "facing shortfalls in payments" would run leaner, more efficient operations. More efficient hospitals might also reduce their rates for private insurers.

Whatever the reality, the debate over cost shifting isn't going away. With the House certain to include a public option in its bill, the key fight between liberals and more conservative Democrats is over what reimbursement rates it will pay. The health-care debate, in all its complexity, really boils down to this: If you are going to cover uninsured Americans, someone will have to pay if the reform plans on the table don't deliver promised savings. And plenty of business executives worry that one way or another, that burden will fall to them. |BW|

Business Exchange

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The Maryland Case

An article in the September-October issue of the journal *Health Affairs* points to Maryland as a model of how states can use regulation to prevent cost shifting. Since 1977 the state has required that private insurers and Medicare reimburse hospitals at the same rate. As a result, Maryland's average hospital cost per patient was 2% below the national average in 2007, compared with 26% above in 1976.

To read about Maryland's experience, go to **http://bx.businessweek.com/us-healthcare-system/reference/**

THE FDIC'S GIFT TO BANKS

Its plan to raise cash also offers a way for financial firms to boost capital and profits

By Theo Francis

The Federal Deposit Insurance Corp. isn't the only beneficiary of a plan to refill its coffers. The proposal, which the banking regulator announced on Sept. 29, also offers an intriguing way for financial firms to boost their capital and raise their profits.

Under the proposal, banks would prepay three years' worth of insurance fees, or roughly $45 billion. The money will help the agency dodge a cash crunch as it deals with a record number of failing institutions. So far 50 banks have been taken over by the agency in the third quarter, vs. a year ago. If the plan goes through, the banks would pay the cash upfront but take the hit to earnings over several years. Banks that don't have the means to pay could seek an exemption.

It's a bit of financial legerdemain. Under accounting rules, banks record prepayments as if they had used the cash to buy an asset—in this case, FDIC insurance. Different types of assets have different capital requirements depending on their risk. The FDIC argues these assets are backed by the government, and the banks shouldn't have to hold any capital against them. If they did have to come up with additional capital to cover these assets, banks might balk at paying their insurance ahead of schedule. "The FDIC's guaranteeing it, and the federal government is guaranteeing the FDIC," says John F. Bovenzi, until May the agency's chief operating officer and currently a partner at industry consultancy Oliver Wyman Financial Services. "It looks like a creative way to deal with a difficult situation."

Here's where it gets interesting for the banks. Deep within the proposal, the agency calls for similar treatment for other assets backed by the FDIC, for the sake of consistency. Those assets include the roughly $300 billion worth of special, FDIC-guaranteed bonds issued since the financial crisis kicked into high gear late last year. Right now the bonds are considered akin to high-quality debt, and the banks have to hold $1.6 million of capital for each $100 million of the bonds they own. The shift means banks would no longer have to set aside money to cover potential losses on FDIC-backed securities. The result: Some banks' cushion of capital would look plumper practically overnight.



FDIC Chief Bair: The proposal could raise $45 billion for the agency

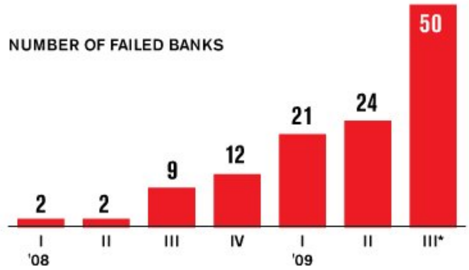
A similar change could add to profits. The FDIC is also looking at putting banks' deposits at other insured institutions in the same risk-free category. That could prompt banks to move some of the $388 billion in reserves they now warehouse at the Federal Reserve into other FDIC-backed institutions. If they do, banks could earn a much higher rate on the money. The Fed pays a paltry 0.25%, compared with about double that for bank deposits. "Banks will have a big incentive to take funds from the Fed and lend them to each other," says a banking analyst at a major money manager. "I could see some very creative deposit pools forming."

Some banking experts question whether the FDIC's proposal would have unforeseen consequences, particularly if banks spread their deposits around dozens of institutions. If bank failures continue to mount, the agency might find it difficult to untangle all the interlocking deposits. Says Mark Gertler, an economics professor at New York University: "If they all started doing this, the FDIC might reconsider the rule." |BW|

—With Peter Coy in New York

THE CASH CRUNCH

The FDIC's coffers have been depleted as bank problems mount



Data: Federal Deposit Insurance Corp. *Through Sept. 29

ANDREW HARRER/BLOOMBERG; CHART BY DAVID FOSTER



"I was originally too embarrassed to have 'the talk' with my doctor, but now I wish I'd done it sooner."

Your Doctor Talks to Men About ED Every Day



Doctor portrayal.

Your doctor will tell you that erectile dysfunction (ED) isn't something to keep to yourself, or to be embarrassed about. It's a common medical condition he can treat.

Running the Numbers

Did you know half of all guys over 40 have some form of ED? Here are some numbers to keep in mind from a recent survey of men with ED:



of men were anxious about talking to their doctor about ED.



of men felt relieved after talking to their doctor.



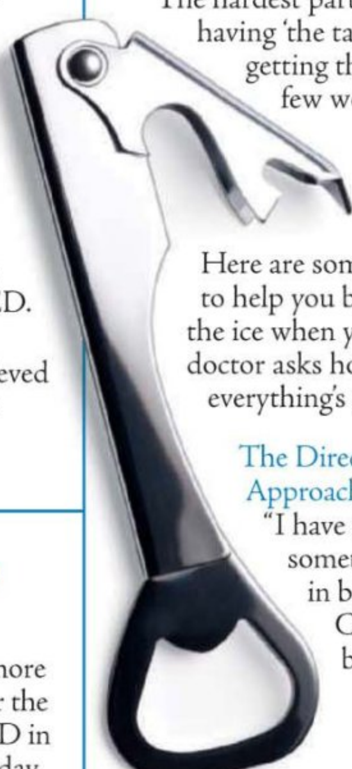
Tell Me More

To learn more about VIAGRA for the treatment of ED, and ED in general, visit **viagra.com** today. You'll find an online sexual health quiz, videos of guys with ED who've had the VIAGRA Talk and other helpful information.

Over 20 million men have already had their VIAGRA Talk. Isn't it time you had yours?

Don't Keep Your Questions Bottled Up

The hardest part about having 'the talk' is getting those first few words out.



Here are some ideas to help you break the ice when your doctor asks how everything's going:

The Direct Approach:
"I have trouble sometimes in bed. Could it be ED?"

The Indirect Approach:
"Is it true age affects sexual performance?"

The Silent Approach:
Just hand this ad to your doctor, he'll take it from there.

Important Safety Information

We know that no medicine is for everyone. Don't take VIAGRA if you take nitrates, often prescribed for chest pain, as this may cause a sudden unsafe drop in blood pressure.

Talk with your doctor first. Make sure your heart is healthy enough to have sex. If you have chest pain, nausea, or other discomforts during sex, seek medical help right away.

As with any ED tablet, in the rare event of an erection lasting more than four hours, seek immediate medical help to avoid long-term injury.

In rare instances, men who take PDE5 inhibitors (oral erectile dysfunction medicines, including VIAGRA) reported a sudden decrease or loss of vision, or sudden decrease or loss of hearing. It is not possible to determine whether these events are related directly to these medicines or to other factors. If you experience any of these symptoms, stop taking PDE5 inhibitors, including VIAGRA, and call a doctor right away.

The most common side effects of VIAGRA are headache, facial flushing, and upset stomach. Less common are bluish or blurred vision, or being sensitive to light. These may occur for a brief time.

VIAGRA does not protect against sexually transmitted diseases including HIV.

Please see Important Facts for VIAGRA on the following page or visit viagra.com for full prescribing information.

For free information, including questions to ask your doctor, call 1-888-4VIAGRA (1-888-484-2472).

VIAGRA®
(sildenafil citrate) tablets

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

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Pfizer

IMPORTANT FACTS

VIAGRA®
(sildenafil citrate) tablets

(vi-AG-rah)

IMPORTANT SAFETY INFORMATION ABOUT VIAGRA

Never take VIAGRA if you take any medicines with nitrates. This includes nitroglycerin. Your blood pressure could drop quickly. It could fall to an unsafe or life-threatening level.

ABOUT ERECTILE DYSFUNCTION (ED)

Erectile dysfunction means a man cannot get or keep an erection. Health problems, injury, or side effects of drugs may cause ED. The cause may not be known.

ABOUT VIAGRA

VIAGRA is used to treat ED in men. When you want to have sex, VIAGRA can help you get and keep an erection when you are sexually excited. You cannot get an erection just by taking the pill. Only your doctor can prescribe VIAGRA.

VIAGRA does not cure ED.

VIAGRA does not protect you or your partner from STDs (sexually transmitted diseases) or HIV. You will need to use a condom.

VIAGRA is not a hormone or an aphrodisiac.

WHO IS VIAGRA FOR?

Who should take VIAGRA?

Men who have ED and whose heart is healthy enough for sex.

Who should NOT take VIAGRA?

- If you ever take medicines with nitrates:
  - Medicines that treat chest pain (angina), such as nitroglycerin or isosorbide mononitrate or dinitrate
- If you use some street drugs, such as “poppers” (amyl nitrate or nitrite)
- If you are allergic to anything in the VIAGRA tablet.

BEFORE YOU START VIAGRA

Tell your doctor if you have or ever had:

- Heart attack, abnormal heartbeats, or stroke
- Heart problems, such as heart failure, chest pain, or aortic valve narrowing
- Low or high blood pressure
- Severe vision loss
- An eye condition called retinitis pigmentosa
- Kidney or liver problems
- Blood problems, such as sickle cell anemia or leukemia
- A deformed penis, Peyronie’s disease, or an erection that lasted more than 4 hours
- Stomach ulcers or any kind of bleeding problems

Tell your doctor about all your medicines. Include over-the-counter medicines, vitamins, and herbal products. Tell your doctor if you take or use:

- Medicines called alpha-blockers to treat high blood pressure or prostate problems. Your blood pressure could suddenly get too low. You could get dizzy or faint. Your doctor may start you on a lower dose of VIAGRA.
- Medicines called protease inhibitors for HIV. Your doctor may prescribe a 25 mg dose. Your doctor may limit VIAGRA to 25 mg in a 48-hour period.
- Other methods to cause erections. These include pills, injections, implants, or pumps.

POSSIBLE SIDE EFFECTS OF VIAGRA

Side effects are mostly mild to moderate. They usually go away after a few hours. Some of these are more likely to happen with higher doses.

The most common side effects are:

- Headache
- Feeling flushed
- Upset stomach

Less common side effects are:

- Trouble telling blue and green apart or seeing a blue tinge on things
- Eyes being more sensitive to light
- Blurred vision

Rarely, a small number of men taking VIAGRA have reported these serious events:

- Having an erection that lasts more than 4 hours. If the erection is not treated right away, long-term loss of potency could occur.
- Sudden decrease or loss of sight in one or both eyes. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. They may be caused by conditions like high blood pressure or diabetes. If you have sudden vision changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Sudden decrease or loss of hearing. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. If you have sudden hearing changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Heart attack, stroke, irregular heartbeats, and death. We do not know whether these events are caused by VIAGRA or caused by other factors. Most of these happened in men who already had heart problems.

If you have any of these problems, stop VIAGRA. Call your doctor right away.

HOW TO TAKE VIAGRA

Do:

- Take VIAGRA only the way your doctor tells you. VIAGRA comes in 25 mg, 50 mg, and 100 mg tablets. Your doctor will tell you how much to take.
- If you are over 65 or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg).
- Take VIAGRA about 1 hour before you want to have sex. VIAGRA starts to work in about 30 minutes when you are sexually excited. VIAGRA lasts up to 4 hours.

Don’t:

- Do not take VIAGRA more than once a day.
- Do not take more VIAGRA than your doctor tells you. If you think you need more VIAGRA, talk with your doctor.
- Do not start or stop any other medicines before checking with your doctor.

NEED MORE INFORMATION?

- This is only a summary of important information. Ask your doctor or pharmacist for complete product information OR
- Go to **www.viagra.com or call (888) 4-VIAGRA (484-2472).**

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WHEN THE CEO JOB IS SPLIT IN TWO

Dividing the post often leads to grief. But Aéropostale's new bosses know how to work together

By Matthew Boyle

Management pundits have long warned about the perils of appointing co-CEOs. Attempts to split the CEO role over the years have led to clashing egos and crippling power struggles at such companies as Goldman Sachs, Citigroup, Martha Stewart Living Omnimedia, Charles Schwab, Unilever, and Kraft Foods. The record is so bad, in fact, that many wonder why any board would split the role, particularly in a recession when decisiveness is key. "It's a marriage of convenience," says Michael Useem, a management professor at the Wharton School. "But like all marriages of convenience, it tends to lead to divorce pretty quickly."

So some might wonder whether teen apparel retailer Aéropostale is sabotaging its success with its Sept. 24 announcement that CEO Julian R. Geiger would step down at the end of the year, to be succeeded by President Mindy C. Meads and Chief Operating Officer Thomas P. Johnson. But analysts took the news in stride, citing the retailer's "team-oriented culture" as a reason why the board paired Meads, who handles merchandising, with Johnson, who heads store operations. "They work very well together," says UBS analyst Roxanne Meyer. "That's unique, especially given the egos in retail." (Aéropostale declined to comment.)

COMPLEMENTARY TALENTS

Despite the obvious problems with power-sharing, a number of companies have made it work. Besides Aéropostale, companies that have co-CEOs include restaurant chains California Pizza Kitchen, Chipotle Mexican Grill, and P.F. Chang's China Bistro; technology companies Motorola, Research In Motion (RIM), and Twitter; as well as food company J.M. Smucker and Indian outsourcing giant Wipro.

What's more, some of them are thriving. The stocks of Chipotle and P.F. Chang's are up 56% and 66%, respectively, since they split the role in January. If leaders have complementary skills and a proven track record of subsuming their egos to work together, notes senior partner David Bliss of consultancy Oliver Wyman Delta, "it can work, but it's difficult."

The most successful pairs often consist of co-founders or veterans who started together when the company was small. RIM's Jim Balsillie, an outgoing finance and strategy specialist, complements the engineering prowess of Mike Lazaridis. At California Pizza Kitchen, Larry S. Flax and Richard L. Rosenfield worked together as lawyers for 12 years before founding their Los Angeles restaurant chain in 1985. "The secret sauce is simple—we like each other," says Rosenfield, who handles real estate and investor relations while Flax focuses on operations and the menu. "We know each other so well we can make important decisions without talking to each other." The two even share a modest L-shaped office.

The circumstances at Aéropostale seem to bode well. Geiger, 64, had shifted more responsibilities to Meads and Johnson over the past year. And the two came together recently to launch a store format aimed at kids 7 to 12. Given the $1.9 billion chain's need to augment its merchandising with an ability to tackle e-commerce, industry recruiter Les Berglass says there's reason to try "a different leadership model." Many CEO jobs are now demanding enough for two people. The challenge is getting two people to pull it off. |BW|

THANKS FOR SHARING?

Divvying up chief executive responsibilities has had mixed results

THE GOOD

COMPANY: California Pizza Kitchen

CEOs: Rick Rosenfield and Larry Flax

SKINNY: Together they founded the high-end pizza chain in 1985 and still run it today.

THE BAD

COMPANY: Kraft Foods

CEOs: Betsy Holden and Roger Deromedi

SKINNY: They shared the top job from 2001 to 2003. Then Holden was demoted amid sagging sales and left.

THE UGLY

COMPANY: Citigroup

CEOs: Sandy Weill and John Reed

SKINNY: They had a tense relationship after the 1998 merger of Citicorp and Travelers. In 2000, Reed left.



(L TO R) LORI SHEPLER/*LOS ANGELES TIMES*/NEWSCOM; DAVID KLOBUCAR/*CHICAGO TRIBUNE*/KRT PHOTOS; MARK PETERSON/CORBIS



A Fisker plug-in hybrid-electric car at the Frankfurt Auto Show in September

MICHAEL PROBST/AP PHOTO

A LONG BET ON ELECTRIC CARS

Why the Energy Dept.'s funding of green-car startups Tesla and Fisker is unlikely to pay off

By David Welch

The Obama Administration is eager to establish a green auto industry and is willing to spend money to make it happen. So far the U.S. Energy Dept. has agreed to lend $8.5 billion to help companies large and small retool plants to make more fuel-efficient cars and develop new technologies. On Sept. 22, the Energy Dept. announced the latest such loan: $528 million for a Silicon Valley startup called Fisker Automotive that vows to produce 130,000 plug-in hybrids by 2013.

The U.S. government believes in funding companies outside the established industry because it's important to nurture new ideas. "We're trying to create competition among technologies in the marketplace," says Matt Rogers, an Energy Dept. adviser. Fisker and Tesla Motor, another startup that has received $465 million in federal money, both say their cars are high-tech and have spurred plenty of consumer interest. But some experts believe the upstarts are too small to compete. "We're pouring $1 billion into two companies without a future," says industry watcher Maryann N. Keller. "The economics of the industry favors large companies."

If the aim of industrial policy is to help nations become leaders in promising new areas, then Fisker, say critics, doesn't pass the test. Founded by former Aston Martin designer Henrik Fisker, the company is best described as an integrator—using other people's motor and battery technology, an engine from General Motors, and a Finnish contract manufacturer to build the cars. Fisker says it is more than an integrator, having developed its own chassis.

Tesla has more credibility as an innovator. It has the only true electric car on the road, and it designed the battery pack that provides the juice. Its technological prowess prompted Daimler to invest $50 million in Tesla and tap the company to make electric Smart cars.

But it will be a huge challenge for either Fisker or Tesla to achieve sufficient scale. Selling 100,000-plus cars a year requires a large network of dealers. Eventually Fisker will have about 100 stores nationally; Tesla has seven with a few more on the way. By contrast, Nissan, Toyota, Ford, and General Motors have thousands of dealers in multiple markets that will be able to sell and service electric and plug-in hybrid vehicles. The big players also lease cars, which is vital to reach affluent customers who have the wherewithal to try pricey new technology. Fisker and Tesla have yet to cut deals with banks to offer leases.

Keller and other critics say the U.S. government should put taxpayer money into more established players. Ford got money to retool plants; Nissan to develop an electric car. But the Energy Dept. nixed GM and Chrysler back when they were headed for bankruptcy. Now that they have emerged, is it time to reconsider? Chrysler has an electric car program but would have to prove that the company is viable in the long run. GM, meanwhile, has a cleaned-up balance sheet and the electric Chevrolet Volt on the way. Rogers of the Energy Dept. says both companies will get another look now that they have emerged from bankruptcy. Should Toyota decide to build any of its future hybrid cars in the U.S., it too could be eligible.

Not every government investment is a sure bet. The question is how much risk taxpayers should shoulder. The feds have put $465 million into Tesla, but it has raised only $300 million and change in private capital. And the U.S. has invested five times as much in Fisker as private investors. Rogers says Fisker must raise more money to tap the credit line, but debt will still account for 70% of the company's funding. So the risk, and burden if these companies fail, will mostly rest with U.S. taxpayers. | BW |

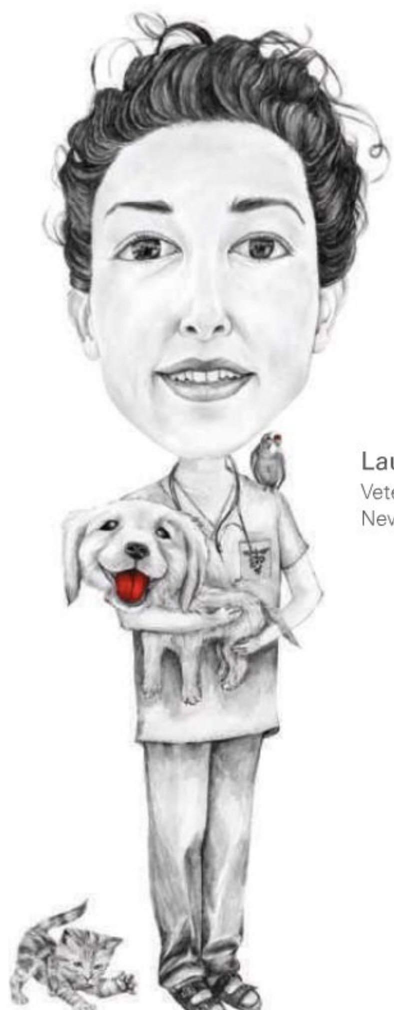
$8.5 billion

Energy Dept. loans to help car companies, including Ford and Nissan, build more efficient vehicles

Data: U.S. Energy Dept.

My banker asked if I'd like to come to the bank less often.

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Laurie B.
Veterinarian
New York, NY

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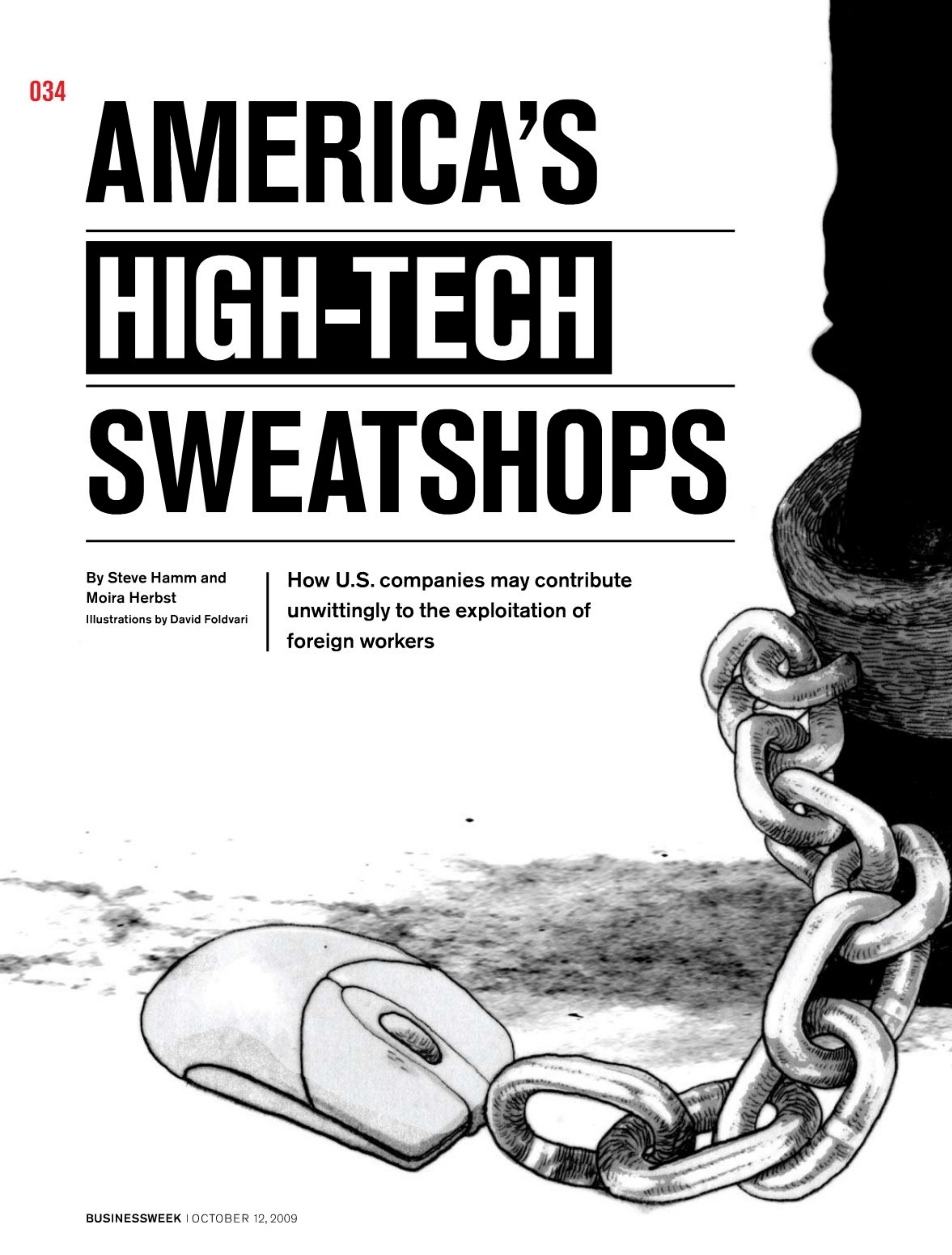
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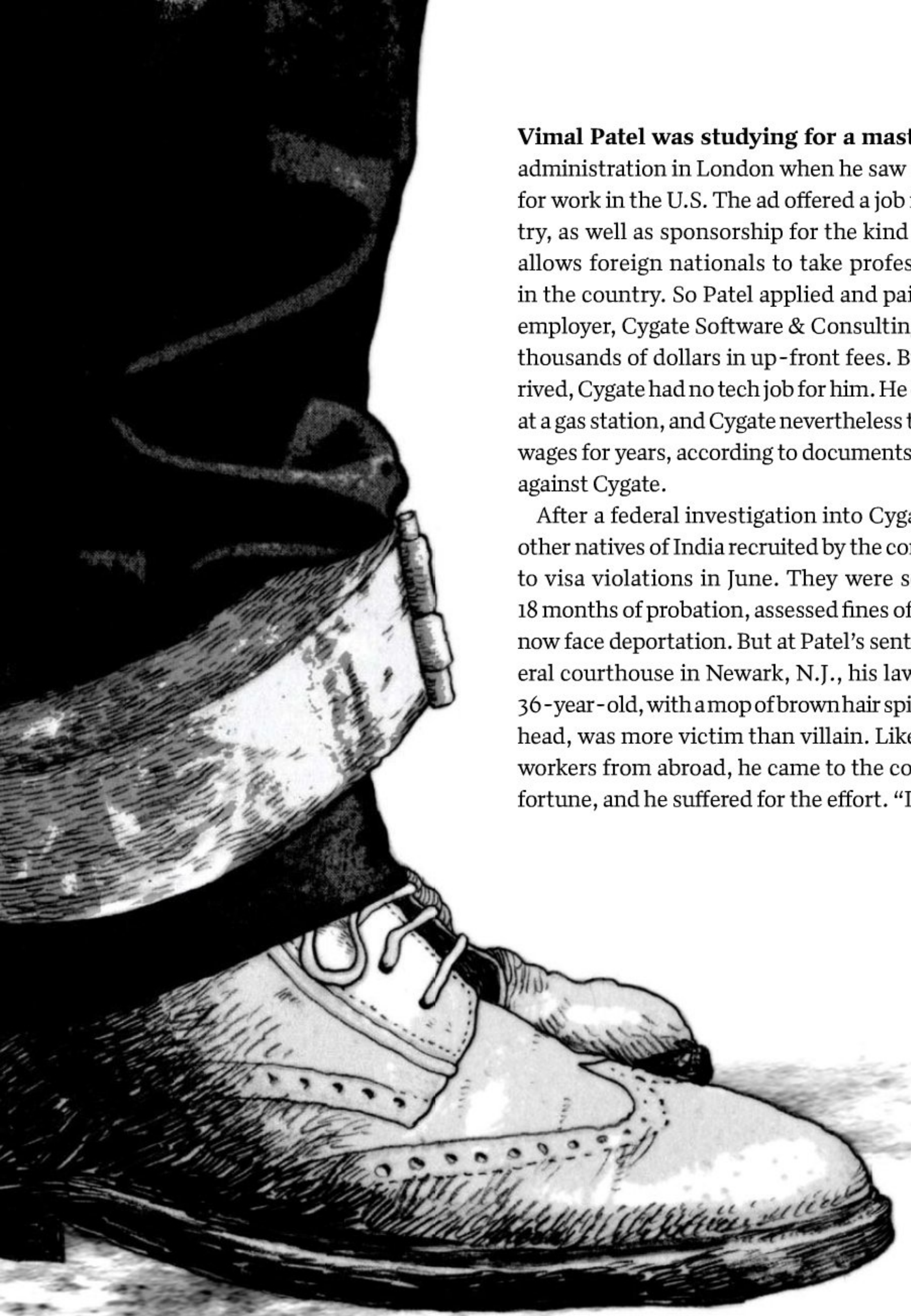
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AMERICA'S HIGH-TECH SWEATSHOPS

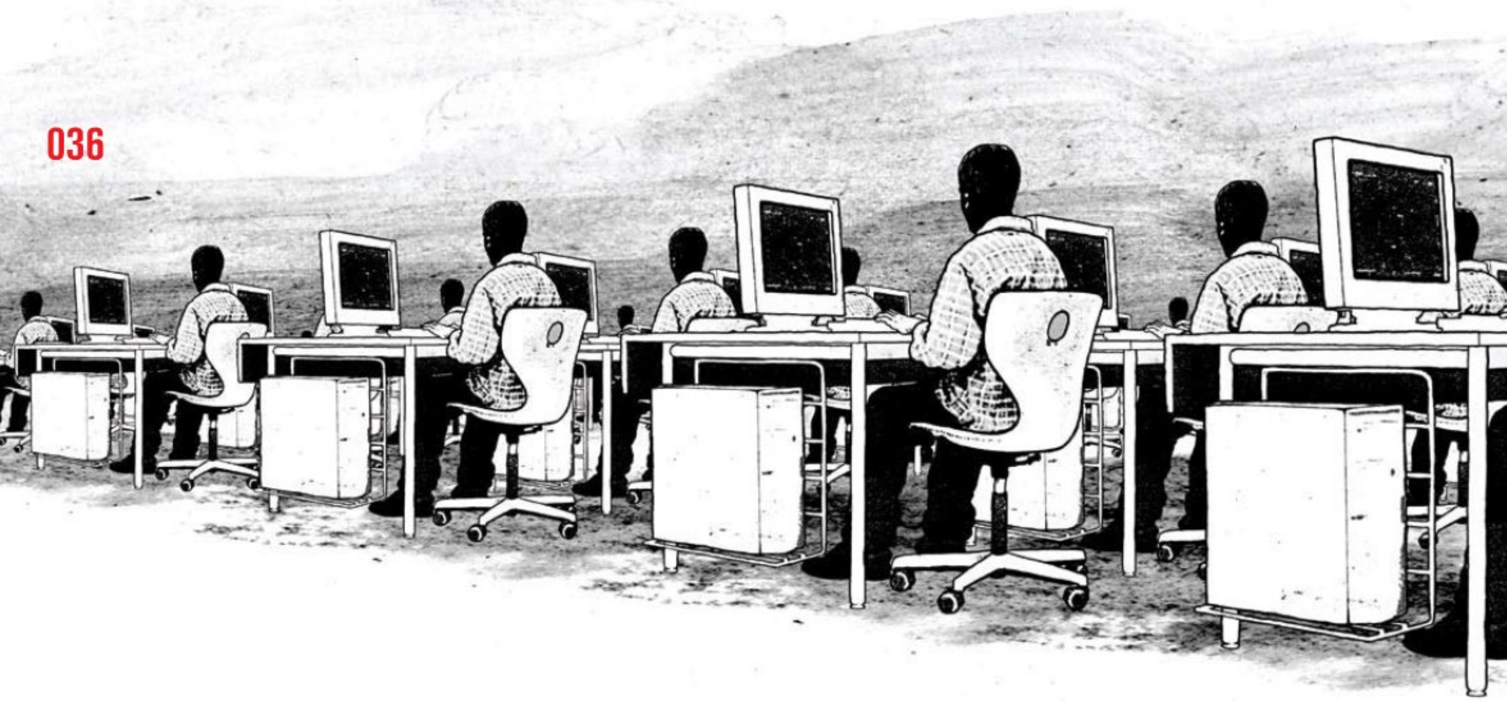
By Steve Hamm and Moira Herbst
Illustrations by David Foldvari

How U.S. companies may contribute unwittingly to the exploitation of foreign workers



Vimal Patel was studying for a master's in business administration in London when he saw an advertisement for work in the U.S. The ad offered a job in the tech industry, as well as sponsorship for the kind of work visa that allows foreign nationals to take professional-level jobs in the country. So Patel applied and paid his prospective employer, Cygate Software & Consulting, in Edison, N.J., thousands of dollars in up-front fees. But when Patel arrived, Cygate had no tech job for him. He ended up working at a gas station, and Cygate nevertheless took a chunk of his wages for years, according to documents in a criminal case against Cygate.

After a federal investigation into Cygate, Patel and five other natives of India recruited by the company pled guilty to visa violations in June. They were sentenced to 12 to 18 months of probation, assessed fines of $2,000 each, and now face deportation. But at Patel's sentencing in the federal courthouse in Newark, N.J., his lawyer said the slim 36-year-old, with a mop of brown hair spilling over his forehead, was more victim than villain. Like many ambitious workers from abroad, he came to the country seeking his fortune, and he suffered for the effort. "It's a sad day," said



Anthony Thomas, the public defender assigned to represent Patel. "He always dreamed of coming to the U.S."

Cygate, which changed its name to Sterling System after the lawsuit, is one of thousands of low-profile companies that have come to play a central role in the U.S. tech industry in recent years. These companies, many with just 10 to 50 employees, recruit workers from abroad and, when possible, place them at U.S. corporations to provide tech support, software programming, and other services. While many outfits operate legally and provide high-quality talent, there is growing evidence that others violate U.S. laws and mistreat their recruits.

Several types of fraud have become common, according to documents from recent lawsuits and interviews with foreign workers, employers, lawyers, and consultants. In some cases companies target young men and women hungry to get well-paid tech jobs in the U.S. and charge them exorbitant fees for visas, which is not allowed under American immigration laws. Even after paying, some workers never get a visa; those who do may find the company they paid has no job for them, as Patel did. This violates U.S. law because companies are supposed to have an open position before they apply for a work visa.

Workers who land tech jobs may face other kinds of trouble. Some companies place foreign workers at client sites and then siphon off part of their pay or charge ongoing fees, which violates U.S. law. Many workers allege they're not paid in between jobs at client sites, though such "benching" without pay isn't allowed either. In other cases, companies claim they're employing people in low-salary regions when they're actually working in high-wage areas, in violation of rules requiring payment of the region's prevailing wage.

Sterling President Nilesh Dasondi was charged with multiple counts of visa violations in the case filed by the U.S. attorney in New Jersey. The government says he collected fees of up to $15,000 from the six workers, left them to find jobs on their own, and extracted more fees to launder their pay through his company. The workers acquiesced because Dasondi, like all employers of visa recipients, held their visa documents and could have revoked the papers if they objected. "This is a microcosm of a big issue that's facing our country—visa fraud," said Sandra L. Moser, the assistant U.S. attorney prosecuting the case in an interview after Patel's sentencing.

Dasondi greeted a reporter at the doorway to his offices in Edison one summer day. From a glass door on the parking lot side of a beige one-story building, he led the way through a warren of cramped rooms, with half a dozen people pecking away at computer keyboards. "My life is such a mess right now," he confided once he was seated in a small conference room. He wouldn't discuss details of the cases against him or Patel, but he promised to talk after it is resolved. Dasondi's lawyer, Eric R. Breslin, says his client "has been an asset to his community" and that Sterling "performs legitimate services for its customers."

"BODY SHOPS"

Tech service outfits such as Sterling have thrived in recent years because of shifts in the U.S. economy. As cost-cutting pressures have increased, companies turned over management of tech systems and other back-office operations to outsourcing firms, including many that bring workers from India and other

INSIDE THE SWEATSHOPS

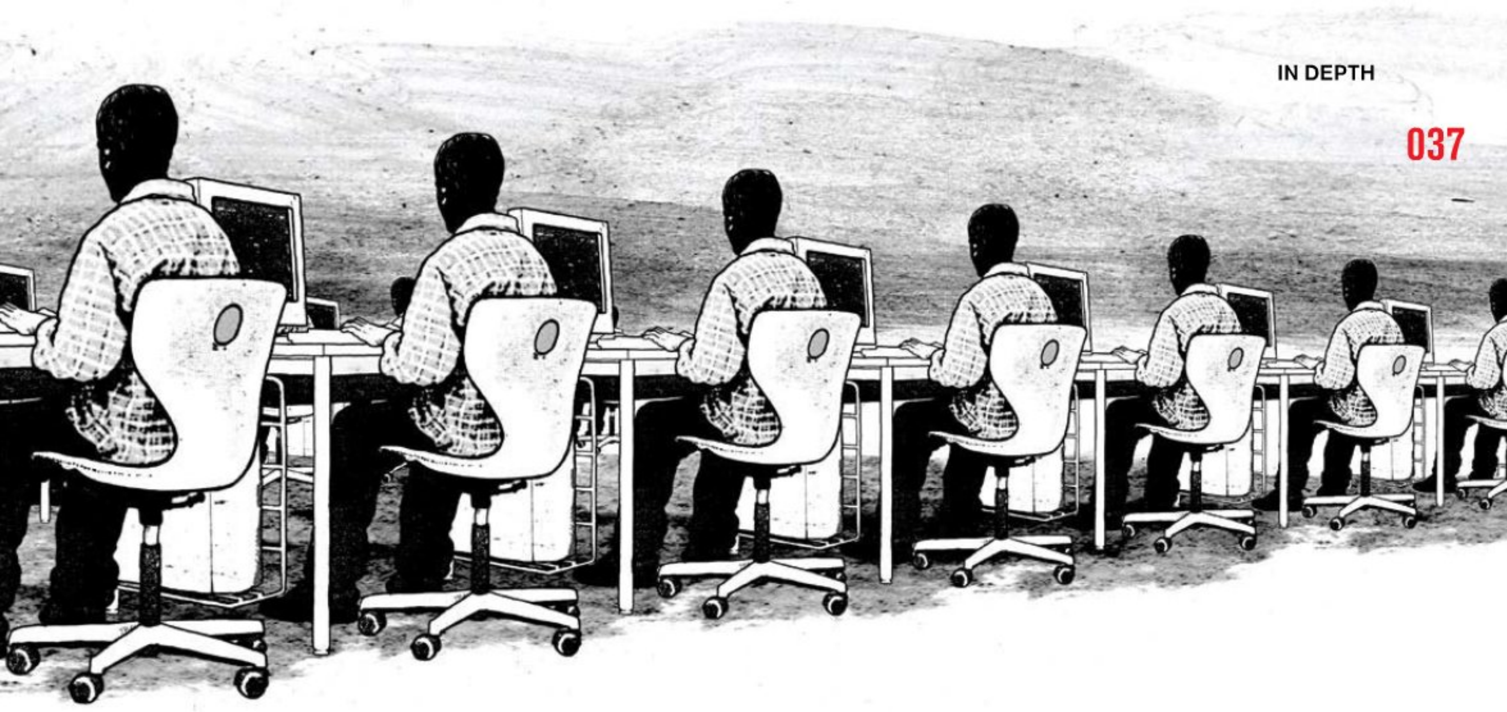
Here are some of the ways unscrupulous tech services companies violate work-visa regulations and hurt workers

PAY-TO-PLAY RECRUITING

Workers from abroad need companies to sponsor them for the visas necessary to come to the U.S. So some tech-services companies take advantage by demanding exorbitant fees in exchange for sponsorship. Such fees, which can be as high as $15,000, are illegal.

RÉSUMÉ INFLATION

Tech companies also pressure IT workers to make inflated claims about their education and on-the-job experience. That makes it easier for workers to get visas reserved for the highly skilled, and it allows the companies to charge corporate clients higher fees for their service.



countries into the U.S. on temporary visas such as the H-1B.

One important way outsourcers hold down costs is by keeping a lean workforce at each client site—then turning to smaller companies, such as Sterling, when they need to increase staff for specific projects, such as installing new software or building a new Web site. These companies are known as "body shops" because of their role, and often rely heavily on foreign workers who come into the country on H-1Bs and other visas. "This is where a lot of the shenanigans take place," says Ron Hira, an assistant professor of public policy at the Rochester Institute of Technology who has written extensively on work visas. A study by the federal government last year estimated that 54% of visa rule violations were committed by companies with fewer than 25 employees.

U.S. companies usually don't know—and don't press to find out—which body shops are tapped to support their tech operations. The result is that prominent American companies can easily end up doing business with tech service outfits that violate visa laws. Breslin wouldn't identify specific Sterling clients, but he says they include "significant companies." Dasondi named Computer Sciences as one customer in a 2006 lawsuit: Dasondi wanted the technology giant to pay him for hiring away one of his employees. Computer Sciences would not comment on the case beyond saying it had been settled.

In recent months workers have alleged mistreatment while working for body shops in the offices of Qualcomm and JPMorgan Chase. In a civil suit filed in May and a complaint to the U.S. Labor Dept., Prasad Nair charged that Unified Business Technologies got him an H-1B visa in 2007 by saying he would work in the company's Troy (Mich.) offices and receive $60,000 a year as a programmer and analyst. Instead, UBT sent him to work at chipmaker Qualcomm's offices in San Diego, where the cost of living and prevailing wage for such a position are much higher. The 32-year-old alleged UBT made unlawful pay deductions, delayed payments, failed to pay overtime, and postponed health benefits for his family. David Blanchard, Nair's attorney, says he struggled "paycheck to paycheck" to take care of his wife and 9-month-old daughter and regularly ate at Burger King to save money.

AN OPAQUE SYSTEM

UBT's lawyer, John G. Coutilish, says Nair's charges are "baseless." Coutilish says UBT agreed to make a "nuisance" payment of $2,500 to end the civil suit, though the Labor Dept. investigation is continuing. UBT has filed its own suit against Nair alleging he quit without giving proper notice and defamed the company with his accusations. Qualcomm declined to comment on the case, but a spokeswoman says the company requires vendors it works with to "explicitly acknowledge that they must comply with all applicable laws and regulations, including ... employment and immigration laws."

In another complaint to the Labor Dept., Benly Ebenezer alleges he was underpaid or not paid at all while working in the Manhattan offices of JPMorgan. In the complaint, Ebenezer, who has two master's degrees in computer science, was brought to the U.S. on an H-1B visa by Itek Consulting in 2005. Ebenezer says Itek paid him about 10% less than the promised $50,000 a year while he worked at the bank, and then stopped paying him altogether between December 2006 and February 2007. The Labor Dept. ruled in Ebenezer's favor in May. He declined to be interviewed because his situation remains "sensitive."

The phone number for Itek is now disconnected. JPMorgan declined to comment on the case.

U.S. executives often have little visibility into the treatment of contract employees because several layers of companies

PAYROLL RUNNING

In some cases, tech companies that can't find legitimate jobs for visa holders force them to seek employment on their own. Then the companies, which hold the workers' visa documents, use that leverage to extract a cut of their wages—which also is illegal.

'BENCHING' WITHOUT PAY

When guest workers are between assignments to clients, or "on the bench," their visa sponsors are required by law to keep paying them. But some don't. Workers on the bench are often forced to hunt for assignments themselves and live off their savings.

are involved. One recruiter for a major U.S. outsourcing firm says there's no way his clients know how body shop workers are treated because, until recently, even he didn't know. He discovered that some of the firms he was hiring for short-term projects weren't using their own people but instead bringing in subcontractors, which often underpaid workers. He just put in place new policies so he knows when a firm he hires is using a subcontractor, but he still can't find out how much workers are paid or in which state they're supposed to be working. "We don't like it," he says. "The agreements seem almost criminal."

RIT professor Hira says the situation is similar to what happened years ago when Western companies began using sweatshops in China for manufacturing. Companies such as Nike sought to lower costs by using overseas manufacturers, which in turn squeezed workers with low pay and poor working conditions. After a public outcry, Nike, Disney, and others started to monitor labor standards abroad. American companies may know little about the tech contractors who work for them in the U.S. now, but Hira says companies should take steps to track the situation more closely. "I don't know of any [top executives] who have made an issue of this," he says. "We haven't had a public discussion of what the clients' responsibility is."

MOVING AGAINST CORRUPTION

While American companies may overlook the treatment of contract workers in their midst, the workers are vulnerable because of government policies. When a foreign worker comes into the country on an H-1B visa, the visa is held by the employer, not the worker. If an employee complains, the company can terminate its visa sponsorship, forcing the worker to leave the U.S. Workers can't shift jobs unless they find another sponsor, which can be difficult. And while workers can gain their freedom with permanent citizenship, the wait even for high-skilled visa holders can be 5 to 10 years. "Many of these people don't know their rights," says Michael F. Brown, an attorney in Appleton, Wis., who handles immigration cases. "They're essentially captives."

Most of the discussion of U.S. work visas in recent years has focused on the effect of visas, when used legally, on the American workforce. Some U.S. tech workers contend that bringing in foreign workers drives down their salaries and makes it easier to move jobs overseas. Senators Richard Durbin (D-Ill.) and Charles Grassley (R-Iowa) have introduced a bill to overhaul the visa program aimed at protecting U.S. workers. But they also want to boost enforcement to combat the mistreatment of foreign visa holders. "We want to stop corruption of [all types in] the [H-1B] program," Grassley said in an interview.

Body shops have sprung up around major metropolitan areas to be close to their clients. One cluster is in northern New Jersey, across the Hudson River from Manhattan. Hundreds of small tech services firms operate in such towns as Belleville, West Windsor, and Edison, where Sterling is headquartered.

At times, the region feels like a front in the battle between foreign and domestic workers. U.S. tech workers in the area have lost thousands of jobs in recent years with the decline of AT&T and Lucent Technologies, and many blame outsourcing firms for taking the remaining well-paid jobs in finance and other sectors. Tech services companies say they're simply responding to clients' needs and are being blamed unfairly for any loss of jobs. In this heated debate, cases of visa abuse, like those alleged against Sterling, have fueled passions on both sides.

John Miano, a 45-year-old software programmer and labor rights attorney, waits for a reporter in a booth in the Summit Diner, a classic mid-20th century eatery in tony Summit, N.J. Miano is the founder of the Programmers' Guild, an association of U.S. software programmers. Over cheeseburgers, he argues that the work visa program is hurting demand for American workers. "The job situation for American tech workers in this area is horrible," he says. "The consulting market has been wiped out. Now it's mostly Indian-owned companies, and they're looking for people with H-1B visas."

He says the rise of body shops has made the situation worse: The companies are usually so small they're overlooked by regulators and law enforcement, so they can squeeze foreign workers and put Americans at even more of a disadvantage. Miano clutches a list of companies in the Summit area that have applied for H-1B visas. They are all over the place—some tucked away in offices on the second or third floors of buildings; one filling the entire first floor of a white-columned brick building on a side street; two of them just mailboxes in a UPS Store. Venkateshwara Computers, in a modest home in nearby Livingston, put in for two programmers. Ajay Pimpariya, the owner, complains that his visa applications weren't approved because he followed the rules, while other companies falsify documents. "If Homeland Security wants to take the information," he says, "I'll tell them who's doing what."

Immigration authorities acknowledge that one reason it's difficult to stop visa abuses is that checking on so many small companies is labor intensive. "The cases are difficult to investigate and difficult to prove," says James Spero, who heads Immigration & Customs Enforcement's fraud unit.

The Dasondi case illustrates how the visa system ties into a

HOW THE SYSTEM WORKS

American corporations may be unknowingly doing business with tech services companies that underpay and otherwise mistreat workers. One example of alleged wrongdoing:

THE WORKER

Indian software programmer Prasad Nair moved to the U.S. in 2008 on a work visa. He claims he was offered a job in Michigan at a salary of $60,000, plus medical insurance and travel expenses.

THE SPONSOR

United Business Technologies in Troy, Mich., sponsored Nair's visa, but, he claims, forced him to sign a new contract requiring him to pay visa and travel costs. UBT denies any wrongdoing.

THE STAFFING AGENCY

UBT sent Nair to a tech services outfit, Larsen & Toubro Infotech, to find him a job. Larsen & Toubro, which is not accused of any wrongdoing, declined to comment for this story.

human supply chain that reaches halfway around the world. According to court documents, the New Jersey businessman recruited workers in Britain and India. In October 2001, he arranged through an intermediary to meet with Kishor Parikh, a mechanical engineer in the western Indian city of Ahmadabad. Dasondi allegedly instructed him to buy a fake university degree and coached him on how to lie to interviewers in the U.S. Consulate. Parikh allegedly paid $9,000 to Dasondi for sponsoring his H-1B application.

When Parikh arrived in the U.S., he learned that Dasondi didn't have a job for him. Instead, Parikh found work at a greeting card shop. He lived in a one-bedroom basement apartment with his wife, parents, and two children, according to his lawyer, John McDonald. Parikh sent Dasondi about $4,000 per month in money orders, which Dasondi ran through his payroll system as if the money came from a corporate client to pay for Parikh's services, according to court records. The payment scheme, which made it look like Parikh was a legitimate tech worker, is a common strategy called "running the payroll."

THE CLIENT

Larsen & Toubro placed Nair in a job in the San Diego offices of tech giant Qualcomm. He claims UBT, his official employer, paid him less than the prevailing wage. UBT has countersued Nair for failure to give proper notice when he quit and for defamation. Qualcomm and Larsen & Toubro are not accused of any wrongdoing.



"WE WERE LIKE PRISONERS"

A tech service firm called Vision Systems Group has been charged, in a criminal suit filed in February, with taking another approach to visa fraud. Under federal law, companies that apply for work visas need to pay the prevailing wage for a specific occupation in a particular region. The rule is aimed at preventing employers from reducing their costs by hiring foreign workers to replace Americans.

Federal prosecutors say Vision Systems, based in New Jersey, set up an office in low-wage Coon Rapids, Iowa, and claimed that up to 25 immigrant employees worked there between August 2003 and December 2008, when they actually worked in higher-wage regions. That would allow Vision Systems to pay a visa holder the prevailing wage of $20.05 per hour in Coon Rapids for an entry-level computer specialist instead of $30.43 at its headquarters in New Jersey. Vision Systems CEO Viswa Mandalapu could not be reached for comment.

Vision Systems identifies JPMorgan Chase and insurance giant Cigna as two of its clients on the reference site Hoovers.com. Both companies declined to comment.

When Akhil Gupta heard about the Vision Systems bust, he celebrated. The Mumbai native who now lives in London had paid the company nearly $3,000 in 2006 for an H-1B visa that never came through. "Vision Systems exploited my dreams," he says. "All I see is a huge amount of money and time lost."

Even workers who land jobs in the U.S. can end up on the bench, without a paycheck for weeks or months. Rajiv Dabhadkar, an Indian who was assigned to such companies as AT&T and Merrill Lynch on guest worker visas, recalls that when a staffing company replaced him with a new visa holder from India, he was so short of cash he couldn't pay the electric bill for his Belleville apartment. He and his wife and their 5-year-old daughter had to wear coats indoors for a few days in the winter. Ultimately, he says, his wife returned to India and filed for divorce. "I am a survivor and a witness," says Dabhadkar, who now lives outside Mumbai and runs the National Organization for Software & Technology Professionals, which publicizes abuses of guest workers.

One Brazilian worker originally came to the U.S. as a college student but was unable to find work when he graduated. Desperate to stay in the country, he took a job with a body shop in New Jersey that promised to sponsor his visa application, train him, and place him in an IT position in a corporation.

Things didn't work out as he had hoped. The company put him up in a two-bedroom apartment in West Windsor that he shared with half a dozen other trainees. It was so cramped he slept in the closet, with his feet sticking out the door. Not a fan of the curries favored by his roommates, he ate his meals at a nearby Subway sandwich shop. At the office, he studied hard in his training courses but was taken aback when the managers instructed him to write up a résumé full of false claims about his skills and work experience. He ended up working for $800 a month. "We were like prisoners," says the man, who would not let his name be used because he is in the country illegally. He ultimately quit and got a tech job in another state.

Foreign workers aren't waiting for American companies or the U.S. government to address the issue of high-tech sweatshops. They've set up Web sites to discuss their experiences with different companies. On sites such as Desi Crunch and Goolti, they talk anonymously and steer one another away from the worst employers. On Desi Crunch, one writer marvels that a company can still attract any potential employees. The worker compares the firm to "an H-1B prison camp" and says, "trust nothing they say or write." |BW|

Business Exchange

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Guest Worker Rights

People who come to the U.S. on work visas include many engineers and computer scientists, often with advanced degrees, but they frequently do not know their rights as employees. Immigration Voice, an advocacy group for foreign workers, has set up a Web site that spells out which visa fees an employer is supposed to pay, what to do if wages aren't paid on time, and how to report problems.

To read Tips for Guest Workers on Avoiding Abuse, go to **bx.businessweek.com/immigration/reference/**

TURKEY TURNS OUTWARD

By Stanley Reed

Photographs by Eilon Paz

Applying for EU membership has sped up reforms—and that has helped it weather the current turmoil

Turkey cannot escape the ravages of the global recession. But this time it may avoid the pains that often afflict this promising country in a downturn. For the Turks, a recession usually goes like this: A wild boom triggers high inflation, the currency collapses, and the poorly managed banking sector, hooked on speculative trading and foreign debt, has a near-death experience. Turkey has a well-educated workforce, proximity to Europe, and a shrewd management class. But financial fragility, including a meltdown that sparked riots in 2001, has kept it from entering the first rank of emerging market economies.

In the current turmoil, to everyone's amazement, things have been different. The economy has been dealt a body blow as exports have stalled (chart). While structural problems still exist, in both the political and regulatory spheres, the financial system has held firm even as U.S. and European banks have hovered on the brink. "This is the first recession in which we didn't have a crisis," says Murat Ulgen, chief economist at HSBC in Istanbul. Credit goes to reforms, backed by the International Monetary Fund, that curbed inflation and forced banks to bolster their balance sheets. The increased presence of foreign banks also spurred locals to improve their game. Most important, Turkey has welcomed investment and stepped up efforts to become a real player in the global economy.

This change in attitude has raised Turkey in the eyes of multinationals. Foreign direct investment surged from $1.1 billion in 2001 to $22 billion in 2007, before dropping back to $18 billion in 2008. Even though the figure is expected to fall to $9.1 billion this year, executives seem confident Turkey will bounce back. With a population of 76 million, Turkey is an attractive consumer market, and all those youthful workers at Europe's doorstep have turned the country into a workshop for export industries such as cars, aerospace, appliances, and textiles. "We put Turkey in the same category as Brazil, Russia, India, China, and South Africa," says Ali Faramawy, a vice-president of Microsoft International in Istanbul. Microsoft's software sales in Turkey are growing at 20% to 30% a year. "It's not difficult to see Microsoft Turkey doubling in size in a relatively short time," Faramawy adds.

Two things have made Turkey more of a player. The enforced discipline of applying for European Union membership has worked wonders. And Prime Minister Recep Tayyip Erdogan, who has headed a moderately Islamist government since 2003, has pushed largely pro-business policies. Building on the ideas of Kemal Dervis, the former World Bank official who took charge of the Turkish economy during the 2001 crisis, Erdogan has slashed corporate taxes, tightened intellectual property protections, and set up an investment promotion agency. He also launched Turkey's EU negotiations. While the talks have been tortuous, they have pressured Turkey to make changes in a wide range of areas—from improving women's rights to easing protectionist policies. "The whole EU process affects business positively," says Umran Beba, Istanbul-based president of PepsiCo for Southeast Europe.

As Turkey shifts from an inward-looking economy to a more open one, local business leaders realize they will need to remake their companies to meet increasing competition. That will require investment in technology and communications, creating a big opening for companies from IBM to Cisco Systems to Google. Eray Yuksek, general manager for IBM in Turkey, figures that, excluding telecom, Turkish companies are spending only about $2 billion on information technology. "That's nothing, nothing" in a country with an economy of Turkey's size. "It's a huge opportunity for us," he says.

"STAGING GROUND"

Other areas of the Turkish market beckon. In 2005, General Electric spent $1.75 billion for 25% of GarantiBank. It now leads the Turkish loan market in most categories and is reporting 3.5% nonperforming loans, below Turkey's industry average of 4.5%. GE's now 21% share is worth $3.4 billion. The company has a venture that makes aircraft engine components, and it's opening a facility to supply locomotives for Europe.

Turkey's trump card is its location. You can sense that Turkey, and especially Istanbul, is at a crossroads by spending an evening at one of the ancient city's exquisite restaurants along the Bosporus, the glowing ribbon of water that separates Asia and Europe. The country is not just close to Europe but also to the former Soviet Union and the Middle East. The area from the Balkans to Kazakhstan has the potential to be fast-growing for years to come. Ferdinando Beccalli-Falco, Brussels-based CEO of GE International, sees Turkey as a "staging ground" for penetrating the region. Yesim Toduk, founder of Istanbul executive search firm



PepsiCo's Beba: "The whole EU process affects business positively"


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Bektas has boosted her textile company's sales despite the recession

Amrop International, says she spends much of her time finding Turks to work for companies in Azerbaijan, Kazakhstan, Russia, and Saudi Arabia.

Investment flows from the East as well. The United Arab Emirates-based Oger Telecom, controlled by Lebanon's Hariri family, owns 55% of Turk Telekom, the fixed-line operator. Kuwaiti Finance House, an Islamic bank, has set up Kuveyt Turk to pursue Islamic banking. Investment firms that mainly channel Gulf money, including Dubai-based Abraaj Capital, which owns a Turkish hospital chain, are active in the country. Middle Eastern investment has soared to a cumulative $6.3 billion since 2004.

This year, though, both multinational and Turkish companies had a rough time. Aynur Bektas, the owner of Hey Tekstil, a textile concern with 4,000 employees, coped by ramping up production 25%, trimming prices, and doubling her customer base. Turkey's textile industry has been slammed, but her sales are up 10%. "Others were not so well prepared," she says.

When export demand slumped, Turkish consumers took up some of the slack. The government introduced a Buy Turkish program, including tax incentives, to encourage Turks to open their wallets. That benefited Arcelik, a unit of Koc Group, Turkey's largest conglomerate. The company churns out 12,000 washing machines a day in a factory in the sunbaked industrial town of Cayirova, an hour's drive from Istanbul. In January and February, output fell to 60% of capacity as demand for washers plummeted in Europe. "Those were the worst months. Now it's coming back," says production manager Alp Karahasanoglu. Production is up 20% since February, and he is planning for expansion. The plant will make about 2.3 million machines this year, but that will grow to 4 million units as export markets recover, he predicts.

Recovery will take time. The Organization for Economic Cooperation & Development predicts growth of 2.6% in 2010, after a 5.9% plunge in gross domestic product this year. Still, the Istanbul Stock Exchange is up 77% this year, and the lira has climbed 23% against the dollar since March.

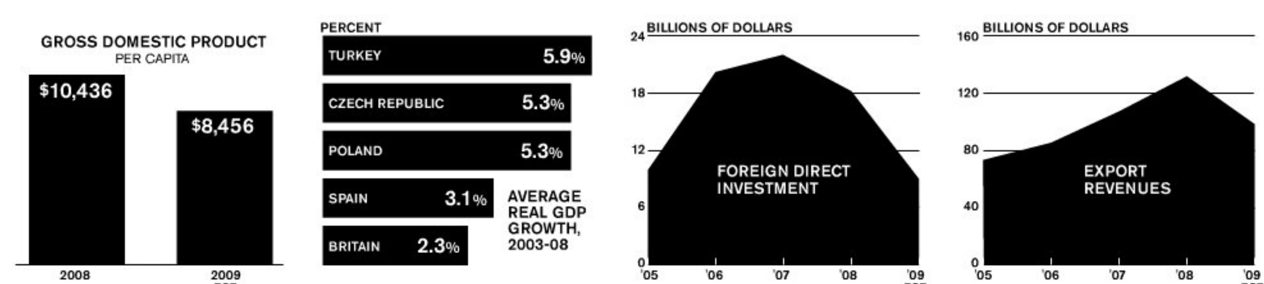
One factor affecting investor confidence in the economy is the Prime Minister himself. Some Turks worry about the Islamist roots of his Justice & Development Party. The fear among secularists is that Erdogan wants to turn Turkey into a version of Saudi Arabia, forcing women to stay at home and banning alcohol. If that is his goal, Erdogan has a long way to go in Istanbul. While some women wear head scarves, plenty don't. And at night the alleyways of central Istanbul are crowded with tables of young people quaffing mugs of Efes beer.

Critics also complain that Erdogan has slowed the pace of reform. And investors were shocked when the government recently fined Dogan Yayin, Turkey's largest media group, $2.5 billion for back taxes and penalties. The company's publications have criticized Erdogan in the past. Another cause for anxiety: taxes. The tax regime hits some industries, such as telecom, harder than others, while half of wage earners aren't legally registered and don't pay taxes. That puts multinationals that play by the rules at a disadvantage to local rivals. "The tax system is a disaster," says A. Rahsan Cebe, managing partner of Cushman & Wakefield in Turkey and chairman of the lobby group American Business Forum in the country. Some businesspeople also think Erdogan should negotiate a new loan with the IMF, which would stabilize long-term finances.

Still, most observers are betting that moderation will prevail and Turkey will stay on a reform path. Adem Dogan, a 27-year-old Istanbul plumber, sees a bright future. He has expanded his business by spending $400 a month to advertise on Google. Says Dogan: "Before we had 100 customers, now we have 2,500." BW

–With Merve Kara in Istanbul

TURKEY'S ECONOMY AT A GLANCE



Data: Government of Turkey

CHARTS BY RAY VELLA/BW

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- Highly competitive investment conditions
- A country that offers 100% and more tax deductions on R&D expenditures
- Access to Europe, Caucasus, Central Asia, the Middle East and North Africa
- 15th largest economy of the world and the 6th largest economy as compared to the 27 EU countries in 2008 (IMF-WEO)
- 15th most attractive FDI destination for 2008-2010 (UNCTAD World Investment Prospects Survey)
- Average annual real GDP growth of 6% for the last 5 years

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CAN GOOGLE STAY ON TOP OF THE WEB?

By Robert D. Hof

Illustrations by Alex Robbins

As Bing, Facebook, Twitter, and less well-known upstarts nip at its heels, Google has hundreds of wizards racing to come up with smarter answers

ILLUSTRATION BASED ON PHOTOGRAPH BY DAN KRAUSS/*THE NEW YORK TIMES*/REDUX. PHOTOGRAPH BY WOLFGANG STAHR

High on a wall of the lobby at Google's sprawling headquarters in Mountain View, Calif., a projector displays a live sampling of the 2.5 billion searches made on Google every day. One after another, every second, they appear and just as quickly scroll out of sight: "Route 81 closed," "cushing's disease and canine diabetes," "weather." It's a graphic reminder of how many people, some 720 million a month worldwide, rely on the search giant for links to information, entertainment, products, and just about everything else on their minds.

Yet upstairs from the lobby on this bright September morning, two dozen Google search engineers and executives are gathered around a long conference table, not to celebrate their success but to wrestle with their failures. Headed by Udi Manber, one of nine Google vice-presidents for engineering, these are the leaders of a cadre of engineers and scientists known as the search quality group. They are the masters of the mysterious mathematical wizardry that has made Google one of the most powerful companies in the world. And every week, in a quixotic quest to provide the perfect answers, they meet to grill each other on how to improve Google's search results.

Better than anyone, these folks know that while Google may outperform other search engines, it still spits out plenty of clunkers—irrelevant sites or even occasionally no sites at all for a particular query. They also know that every disappointing result means someone is less likely to click on ads—the source of nearly all of Google's $22 billion in revenues last year—and more likely to try another search engine. "If it turns out that somebody offers a better service than we do," Manber, a former academic and executive at Yahoo! and Amazon.com, says with characteristic understatement, "that's a concern."

Today more than ever, Manber and the brainiacs in the search quality group can't afford to falter. Google's competition has recently gone from pitiful to plentiful: Microsoft's new Bing search engine picked up 1.5 percentage points of market share in August to hit 9.5%, according to market researcher Hitwise, while Google's share fell from 71.4% to 70.2%. Bing's gain is partly thanks to a $100 million marketing blitz complete with television ads knocking Google every which way but in name. Microsoft's pending deal

Manber heads the elite team that works incessantly to improve search results



for Bing to become Yahoo's underlying search engine, creating a combined entity with 27% market share, could produce Google's first sizable competitor in years.

In addition, there are new upstarts, such as Twitter, Facebook, and Wolfram Alpha, a "knowledge engine" that attempts to answer factual queries in a more organized, comprehensive way. These and other companies are offering search services in such specialized areas as breaking news, updates from friends, and scientific research. Twitter, for instance, has become some news junkies' go-to site for finding out about plane crashes and other news that Google's computers haven't yet provided links to. "Google's very good at searching content as if it's out of a library," says Kimbal Musk, chief executive of OneRiot, a search startup for real-time posts and news from Twitter, Digg, and other social sites. "Twitter let people know another kind of search is possible."

THE PERFECT ANSWER

Here's how the search giant tries to improve results:

1. PROBLEM
An engineer comes up with an idea for improving a set of search results, such as removing irrelevant sites or discovering new sites that cannot yet be found.

2. EXPERIMENTATION
Using a copy of the entire Web on Google's computers, a team tries out various tweaks to Google's mathematical formulas to produce more relevant results.

3. EVALUATION
Engineers send the proposed improvement to "eval," the evaluation unit, for more rigorous tests, including surveys of human raters and limited live tests on the public site. Eval suggests further improvements to the fix and creates a report on how they will affect results overall.

4. IMPLEMENTATION
The proposal is reviewed at a weekly launch meeting and, if approved, soon rolled out to all 720 million Google users.

ALTERNATIVES TO SEARCH?

Of course, countless would-be Google killers have fallen on their faces over the years. But longer term, Twitter, Facebook, and related services may pose a more fundamental threat to Google: a new center of the Internet universe outside of search. Twitter, now with 55 million monthly visitors, and Facebook, with 300 million, hint at an emerging Web in which people don't merely read or watch material but communicate, collaborate with colleagues, and otherwise get things done using online services. "Today the Web is not just a collection of pages, it's a collection of applications," says Anand Rajaraman, CEO of Kosmix, a guide to specific Web topics such as health.

As the Web evolves, there's no guarantee that search, or Google, will remain at its center. Not so long ago, portals such as AOL and Yahoo dominated the Internet as most people's first stop online. They lost ground as search improved and helped guide people quickly to sites they were looking for. Now Twitter and others are becoming significant drivers of people's attention to Web sites—Google's raison d'être. The *New York Times* recently said that some 10% of NYTimes.com's traffic was sent by Twitter. Some marketers sense in the rapid rise of Twitter and Facebook a new way other than search for people to find information, connect with friends, and get recommendations and ads for products to buy. Twitter's ability to raise a round of venture money that gives the startup, which has no meaningful revenue yet, a valuation of $1 billion reflects the potential some people see.

Google clearly understands this emerging new Web, given its investments in such services as the video sharing site YouTube, online applications, and even an operating system. But the company hasn't been able to generate significant revenue from anything besides search-related ads, raising doubts about how long it can remain the key leader of the Internet economy.

Meanwhile, Google's very success and size are starting to work against it. In the past year the company has been the target of three U.S. antitrust inquiries and one in Italy. Most recently the Justice Dept. on Sept. 18 said Google's controversial settlement with authors and publishers, which would have allowed it to scan and sell certain books, must be changed to avoid breaking antitrust laws. Even Google's own paying customers—advertisers and ad agencies—say they're eager for alternatives to blunt Google's power. Says Roger Barnette, president of search marketing firm SearchIgnite: "People want a No. 2 that has heft and scale."

The challenges come at a pivotal time for Google. The company, whose founders Larry Page and Sergey Brin have thumbed their noses at conventional corporate thinking since Google's founding in 1998, is going through a trying transition to maturity. Its year-over-year revenue growth skidded to 3% in the second quarter from 31% in 2008, prompting several small rounds of layoffs. Analysts chiefly blame the economy and expect search-ad growth to return quickly as the recession eases—one reason Google's stock has more than doubled from its 52-week low last November to nearly 500 today. Yet some current and former Googlers say the company's size has made it slower to act and thus



Google's top troubleshooters (l-r): anti-spammer Cotts; Singhal, head of rankings; and Huffman, who runs the "eval" unit

ILLUSTRATION (SINGHAL) BASED ON PHOTOGRAPH BY THOR SWIFT/*THE NEW YORK TIMES*/REDUX; PHOTOGRAPH BY WOLFGANG STAHR

less attractive to the entrepreneurial folk who flocked there in its early days. Google has seen a number of high-profile departures in the past two years.

Relatively few have left the search operation, however. And Google continues to hire engineers for it. "We're still investing a lot in search," says Google CEO Eric Schmidt in an interview. "We are first and foremost a search company." To explore Google's prospects for staying ahead, *BusinessWeek* recently got a close look at the highly secretive search quality group. Its mathematical formulas and methods are closely guarded to stymie competitors and prevent spammers from gaming the system. But Google provided candid insights into how it's trying to make search so good that people won't bother with extended detours to Twitter, Facebook, and beyond.

The group's home is in Building 43 in the center of the sprawling Googleplex in Mountain View. Deliberately casual, the first floor features such Googley touches as a refrigerator case with free Odwalla juices and huge panels of whiteboards scrawled with product ideas and jokes ("Why are they called apartments if they're stuck together?"). The company's trademark primary colors are splashed everywhere, down to the bulletin-board pushpins. A huge pile of Legos is scattered at the top of the stairs for engineers who need a break from coding software. In a hallway, someone snoozes in a MetroNaps EnergyPod, a semiprivate chair module for catnaps. Much of the second floor, which houses many members of the search quality team, resembles a well-used playroom for a large family of overgrown kids, which is more or less what it is.



The team is composed of several hundred engineers, many from outside the U.S. and some with 20 years of experience in search and information retrieval technologies that predate the Web. In Google's version of Silicon Valley egalitarianism, most people, including executives, share cramped glass offices. They're crowded with multiple large computer monitors, along with whiteboards and yellow sticky notes covered with formulas and notes on arcane aspects of search technology. The office of Matt Cutts, head of the anti-spam unit, and four others bears an inscription above the door: "What could possibly go wrong?"

GOOGLE HAS RECENTLY RELEASED FEATURES THAT SUGGEST IT'S PAYING CLOSE ATTENTION TO SUCH COMPETITORS AS TWITTER AND WOLFRAM ALPHA

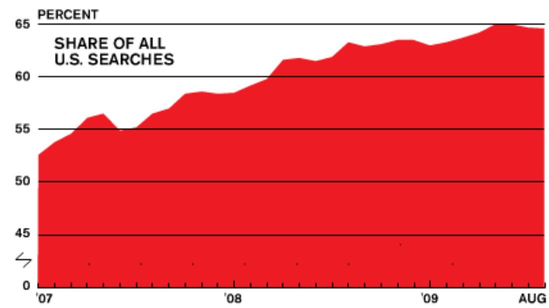
It's a question Manber and his team contemplate every day. Google can claim a number of search breakthroughs in its 11 years, starting with the co-founders' breakthrough PageRank formula, which gives higher ratings to pages many other sites link to, because they're likely more useful than pages with few links. But it's clear these guys—and a few women—view doing search well as something as difficult as curing cancer. "There's just an endless supply of very difficult, challenging, but incredibly interesting problems to work on," says Scott Huffman, who runs the search evaluation unit and mobile search.

Lately Google has released a flurry of features that suggest it's paying close attention to the competition. One, called Search Options, opens up a pane on the left side of the Google page that allows searchers to narrow queries by such categories as videos, books, or time. In what may be a nod to Twitter, users can select the past 24 hours or even more recent results. Another feature, Google Squared, organizes information on topics, such as dog breeds, into a table with descriptions, photos, and more—echoing Wolfram Alpha.

Most of the search quality group's contributions are

GOOGLE'S RISE

The search giant has solidified its lead in recent years



Data: ComScore

less visible because its work is focused mostly on the underlying algorithms, the mathematical formulas that determine which results appear in response to a particular query. Google conducts some 5,000 experiments annually on those formulas and makes up to 500 changes a year. Some are as tiny as improving the results returned on queries such as "GM" by inferring whether someone is looking for the car company or sites on genetically modified food. Others—such as Universal Search, which two years ago added images, videos, and maps to search results that once were all just Web pages—are radical changes. "The core relevance of the results underneath is still the most important thing," says search expert Danny Sullivan, editor of the Search Engine Land Web site.

If Google's corporate mission is to "organize the world's information and make it universally accessible and useful," Manber articulates a similarly expansive vision of search. He notes that while the 20th century was all about conquering nature, the 21st century will be about understanding people—not just what they say they're looking for, but inferring what they mean from the most minute behavioral clues. "Search is a big part of it, possibly leading the way," says Manber, an intense but soft-spoken man who plays 10 different musical instruments strictly for his own enjoyment. "Our job is to do rocket science that will be taken for granted."

The group's work often begins with a complaint. Google users can flag a bum result by clicking a link at the bottom of results. In some cases, data collected from a standard set of sample queries that Google's computers are constantly running may indicate people aren't clicking on some results as much or in the same way as they did historically. Most ideas, though, come from Google engineers with an inspiration. At the Tuesday morning meeting of search leaders, briefings from colleagues all around Google may spark a new idea to improve a set of searches. Not least, engineers just keep their eyes open. While he browses local art shows, Cutts scribbles obscure artists' Web sites in a small notebook so he can check later on how well they show up in a search—or don't.

Whatever the source, "broken" queries and other proposals for improvements land in the e-mail box of Amit Singhal. The genial, 41-year-old Google Fellow (the company title for its most accomplished engineers) heads the core ranking team. Its job is to provide the most relevant links to pages, videos, and other information for every query and adjust the algorithms when results don't seem to match the queries. Making improvements follows a regular regime. Engineers on the team can essentially try out proposed changes on one of Google's copies of the entire Web, stashed on the company's massive network of computers. Once they think they have a fix, they send the proposal to the evaluation unit, "eval" for short. Those changes can affect many other queries in unexpected ways, so it's up to eval to run more rigorous tests to make sure a change is positive overall and doesn't hurt other results too much.

About three years ago, for instance, engineers proposed a ranking update that would include more results related to synonyms of the words or phrases a searcher typed in—theoretically providing more relevant results in some cases. A broad sample of queries seemed to indicate people on average liked the results. But when eval statisticians dug into results in particular countries, they ran into a big problem. In Chinese, terms such as "big school" and "little school" were coming back as synonyms, producing results that were "really bad, like this would be hugely embarrassing if we launch this," recalls Huffman, head of the evaluation unit. So despite the positive results in other languages, engineers had to try again. Ultimately, they found a bug in the software code that they fixed.

THREATS ON THE HORIZON

Despite many well-publicized failures of would-be Google killers, fresh combatants keep coming. Here are some of the most prominent:

BING

Microsoft is spending $100 million on marketing its recently relaunched search engine. Bing's market share rose from 8% to 9.5% in August, while Google's fell from 71.4% to 70.2%.

TWITTER

The microblogging startup, with a recent funding round that valued it at $1 billion, now handles at least 37 million searches a month, only a few months after introducing a search box. But that's still tiny compared with Google's 76 billion a month.

FASTER THAN AN EYEBLINK

That experiment points up another surprising aspect of Google's testing. Google is famous for its algorithms and data-driven approach, but the company depends nearly as much on a global network of human evaluators, or "raters." These part-time contract workers are asked to provide opinions on proposed changes and whether results are more relevant, among other things. Often their opinions carry the day. A couple of years ago, an engineer proposed that Google extract addresses from pages and display them, and perhaps a related map, in appropriate situations, such as when someone does a search for "MOMA New York." The raters liked it, and after a live test on Google confirmed its popularity, the feature was rolled out. About 10 changes are approved to go live at each Thursday morning launch meeting.

To an outsider, many of the changes may look impossibly

trivial. Several years ago, for instance, engineers noticed that while Google was returning useful pages when someone typed an acronym such as "CIA"—providing links to the government agency and to the Culinary Institute of America—people were taking a slightly longer time than expected to click on one of them. So on the results pages, Google began highlighting in bold the full names. Immediately, Google saw more clicks through to pages—and faster, too. How much faster? Perhaps 30 or 40 thousandths of a second, on average, Singhal says. That's one tenth the speed of an eyeblink. "This was a small idea," concedes Singhal. "But we have a real responsibility as a company to respect people's time."

More recently, Google has been focusing on providing results more relevant to specific regions around the world. Engineers realized that people in India searching for "bank" didn't much care about Bank of America, even if it was in the news. So Google has been tweaking algorithms to emphasize the searcher's apparent location. Now, a search on "bank" on the U.S. site, google.com, will bring up links to Bank of America and Wells Fargo, while the same search on google.co.in, Google's Indian site, will bring up homegrown HDFC Bank and ICICI Bank. It's one small reason Google has even higher market share in many other countries than in the U.S.—such as 88% in India, according to comScore.

Making all these search improvement efforts even more difficult is the need to cull Web spam. Marketers of male enhancement drugs or purveyors of damaging software, for instance, are continually trying to fool Google's algorithms into ranking their pages up high. Cutts and his team are constantly on the lookout for ways to recognize them and squelch their appearance in results. In other cases, Webmasters who oversee sites run afoul of such efforts by accident. So Cutts, a voluble 37-year-old who currently sports a shaved head—the result of a lost bet that his team couldn't finish a project on a tight deadline—also educates Webmasters through conference appearances and informational videos on YouTube.

Cutts' unusually public role was on display at the recent Search Engine Strategies conference in San Jose. In this crowd, Cutts is a rock star, his blog posts studied as carefully as Wall Street traders deconstruct comments by Federal Reserve Chairman Ben Bernanke. Cutts served on a panel called "Extreme Makeover: Live Site Clinic," where three dozen Webmasters rushed up to provide business cards. The first site was a sex toys emporium called mypleasure.com. An unruffled Cutts suggested changing its URLs, or Web addresses, to contain more product-related words. Examining a Midwestern department store site, Cutts chided, "Your URL structure is pretty much a search engine obstacle course," advising the Webmaster to excise question marks and other symbols.

The reason Google has become such a powerhouse isn't just because its search technology is exceptional, of course. It's because the company perfected a way to match advertisements to its search results. Hundreds of thousands of advertisers in its AdWords program bid in an online auction to buy "keywords," or terms likely to be in search queries, that they hope will trigger their ads to run on the right side or the top of the search results page. It's a good bet that people searching on, say, "sony cybershot" are in the market to buy a digital camera, and retailers that buy that term are more likely to attract clicks and sales. Spending on search advertising has soared in recent years because advertisers tend to get strong returns for their money.

How well are all the search improvements underlying those lucrative ads working? While no one knows for sure whose search results are best, a number of independent experts continue to give Google the nod over its rivals. And they think the current crop of would-be disrupters isn't going to beat Google at its own game anytime soon. "None of these are big challenges for Google," says search expert Sullivan. "I think Google is still better in quality."

For now, at least. But Google engineers know they need to think outside the search box to stay ahead. A recent contest called CSI, for "Crazy Search Ideas," asked engineers to submit improvements they thought would never be approved because they were weird or seemed too minor. Some 118 entries were culled to four, which are still being explored. Describing such left-field efforts after the recent Tuesday morning meeting, Manber mused about how easy it is to climb a hill and think you're on top of the world. "My worry is we could be stuck on top of a hill," he says, "and it's not the right hill." | BW |

ONERIOT
The Boulder (Colo.) startup is among the leaders of a large pack of real-time search engines. OneRiot searches current news and posts on Twitter, Digg, and other social sharing services.

WOLFRAM ALPHA
Founded by Stephen Wolfram, creator of the Mathematica software program, this "computational knowledge engine" aims to provide definitive answers to factual queries.

AARDVARK
One of several answer services, including ChaCha, Mahalo, and Yahoo Answers, that marshal friends and topic experts to provide fast responses to queries.

Business Exchange

Read, save, and add content on BW's new Web 2.0 topic network

Inside Google's Ad Machine

If few people understand how Google's search engine works, fewer still understand the search advertising system that funneled close to $22 billion into the company's coffers last year. An article in *Wired* magazine's June 2009 issue uncovers the inner workings, explaining how Google runs an auction for some 2.5 billion daily searches. One key fact: The highest bidders don't always win.

Go to **http://bx.businessweek.com/google/reference/**

Cloud Computing Playing a Key Role as Businesses Plan for Recovery



More and more, economists and business leaders are talking about 'green shoots' and a brightening picture for the economic recovery. But what if they are wrong, or just early? A growing number of strategic-thinking executives are finding a happy 'win-win' solution by adopting cloud computing. Cloud computing is allowing business execs from all-sized companies to achieve their two most sought-after goals: **1**. Cut on-going costs (without cutting services) and **2**. Position for growth (without growing spending)

How Cloud is Seeding Business Changes Today

GartnerGroup, a leading IT analyst firm, predicts cloud will revolutionize business as much as Internet ebusiness did more than a decade ago. The reason: Cloud is amassing an amazing war chest of 'activate-when ready' capabilities for computing that will: simplify B2B integration, provide real-time business consoles, make security and compliance more effective and efficient, even expand capacities 100-fold or more–without purchasing any hardware.

Let's look at some game-changing companies turning cloud into a powerful business ally.

Citrix Systems, Inc. provides virtualization, networking and cloud technologies to more than 230,000 organizations worldwide. With its GoTo product family, Citrix harnesses the power and promise of its cloud computing technologies to deliver software-as-a-service to prosumers and businesses of all sizes.

Citrix cloud offerings integrate its cloud-proven virtualization and networking products that power many of today's largest Internet and web service providers. Its virtualization technologies break the hard-coded link between the software and the hardware it runs on and makes each component a separate, on-demand service, enabling physical servers to run multiple workloads and support a large number of applications. Its networking technologies deliver cloud-based resources to users over the Web, continually optimizing performance and security by dynamically scaling the number of virtual machines or servers available in response to changing workload demands and infrastructure availability.

"Thanks to our experience with customers, Citrix understands that not one solution fits all customers and is taking an open and pragmatic approach to delivering cloud solutions," said John Fanelli, Citrix VP of Community and Solutions Marketing.

Citrix provides multiple cloud options for large, mid-sized and SMB companies, as well as cloud service providers. All aim to help companies use the cloud to:

- **Cut IT expenses**
- **Gain more control of recurring expenses**
- **Expand capacity of current systems—without new hardware**
- **Support lower-cost management of back office, desktops and PCs**
- **Provide easy-to-implement disaster recovery**

SMB organizations are realizing the benefits of cloud computing through the use of Managed Service Providers that host their entire IT infrastructure and deliver it as a service. Larger organizations are using Citrix products and technology blueprints to gain experience with what the large public clouds can provide.

Citrix cloud innovations are even poised to extend to individual PCs and notebooks—and save companies time and money. "With desktop virtualization, we can enable companies to create *private clouds* to deliver Desktops as a Service," Fanelli said. With Microsoft due to ship Windows 7 this Fall and aging PCs as catalysts, he predicts desktop as a service could prove to be the killer application in the cloud in 2010.

SIMPLICITY IS POWER

The power of desktop virtualization.

Thousands of virtual desktops and applications, in any combination, now in your capable hands. Citrix® XenDesktop™ with HDX™ technology gives you an effortless way to deliver high-definition Windows desktops as a personalized, on-demand service.



No matter how many devices, users or locations you support, control every one of them from a single set of secure, centrally managed images. All from one convenient location—your fingertips.

Think of it as simplicity, delivered.

Simplicity is power. Citrix.

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Securing, Managing Your Cloud Is Key to Capturing Ongoing ROI

As more companies tap into the eye-popping benefits of virtualization and cloud computing, it gets easier to identify the ROI of these efforts.

Studies show that first-time virtualization projects have a two-fold benefit:

- ***Dramatically decrease* the number of physical servers in the datacenter, saving IT costs, energy costs, and IT labor.**
- ***Easily increase* computing capacity by 3–5x for storage, number-crunching, and Internet downloads and purchases.**

With low ROI (often under 6 months), it's no wonder virtualization and private cloud projects are gaining new converts and prompting experienced firms to do more. Despite this 'win-win' opportunity, companies have to be careful to avoid hidden expenses.

Trend Micro helps protect investments in virtualization by offering technologies that ensure the benefits from cloud computing go directly to the bottom line—and not to underwrite new, unthought-of expenses.

"We have one customer who was very successful with virtualization, and cut the number of physical servers from 1,000 down to around 300 servers," said Steve Quane, General Manager for Trend Micro's Virtualization/Cloud Computing business unit. "But, the customer ended up a victim of virtualization sprawl, ballooning to close to 5,000 'virtual' servers—a complex cloud infrastructure that was costly and hard to manage."

The result? "The customer was understandably frustrated that he had been so successful at tapping into cloud and virtualization, only to see those cost-savings go to higher management costs. And, if that wasn't bad enough, the customer was also worried that some systems might have become more vulnerable to security attack than before," Quane added. (see sidebar)

CLOUD COMPUTING WEB RESOURCES

Top Cloud Computing Standards Groups
http://cloud-standards.org

Citrix Systems
www.citrix.com/cloud

Cordys
http://www.cordys.com

Trend Micro
www.trendmicro.com/virtualization

Trend Micro offers a solution that can help companies hold onto the cost-savings of virtualization by addressing ROI-draining complexities.

"Trend Micro Deep Security software is specially designed to protect physical, virtual, and cloud computing datacenters from attacks on vulnerabilities that may result in costly data breach and business disruptions," noted Quane. Trend Micro recommends focusing on three key areas to keep virtualization costs in check:

Security: The Deep Security suite provides advanced protection for servers and software in the cloud. "Trend Micro has been proactive for years in protecting all parts of the IT infrastructure—from datacenter to desktop—with cutting edge security monitoring and profiles. This expertise is at the heart of the protection that Deep Security offers for virtualized and cloud infrastructures," Quane said.

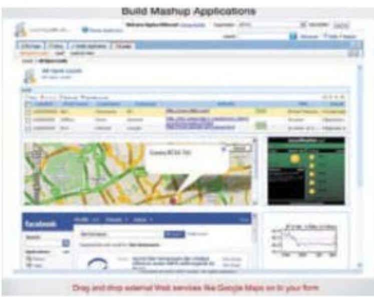
Low-Cost Management: Deep Security also keeps costs low for managing the security of a company's virtualization infrastructure by automating resource intensive security tasks. This helps to reduce false positive security alerts and streamline security incident response. Deep Security also avoids the costly staff retraining with an easy-to-read, easy-to-operate centrally managed console.

Data Integrity / Regulatory Compliance: To proactively address data integrity and confidentiality concerns, Deep Security protects confidential data and critical applications to help prevent data breaches and ensure business continuity, while enabling compliance with important standards and regulations such as PCI, FISMA and HIPAA.

"Once companies get their first taste of the cost benefits from virtualization and cloud computing they're certainly excited to see more. But to maintain those cost-savings, we find companies will benefit from a simple approach to managing and securing their new infrastructure. That's the incremental benefit we offer," Quane said.


KAWASAKI MOTORS CORP., U.S.A.:
Less Admin Time Spent With Trend Micro Solutions
Lakeridge Health Taps Trend Micro, Reduces Security Management Costs 10-15%
PAGE 8D
41% fewer infected machines at University of Windsor thanks to Trend Micro
Georgia-Pacific LLC touts Trend Micro: "Right Functionality & Good Value"
page 3C
CUT COSTS UP TO 40%.*
Think better protection has to cost more?
THINK AGAIN.
*A recent, independent research study shows that Trend Micro™ Enterprise Security, powered by the Trend Micro Smart Protection Network,™ can lower your management costs by up to 40%. That's because this next-generation, cloud-client security infrastructure enables a unique combination of solutions and services to stop threats before they reach your network, significantly reducing enterprise risk and productivity loss. Enterprises around the world are saving big and you can too. Run the numbers and see how the Trend Micro Smart Protection Network can help you reduce costs without compromising security.
▸ Try our free, online TCO impact calculator now at trendmicro.com/thinkagain
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Securing Your Web World
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Doing Business in the Cloud: Cost, Agility and Collaboration for the New Economy



Dealing with market and operational uncertainties? Looking for ways to accelerate transformation in your organization? Need to collaborate effectively with your value chain?

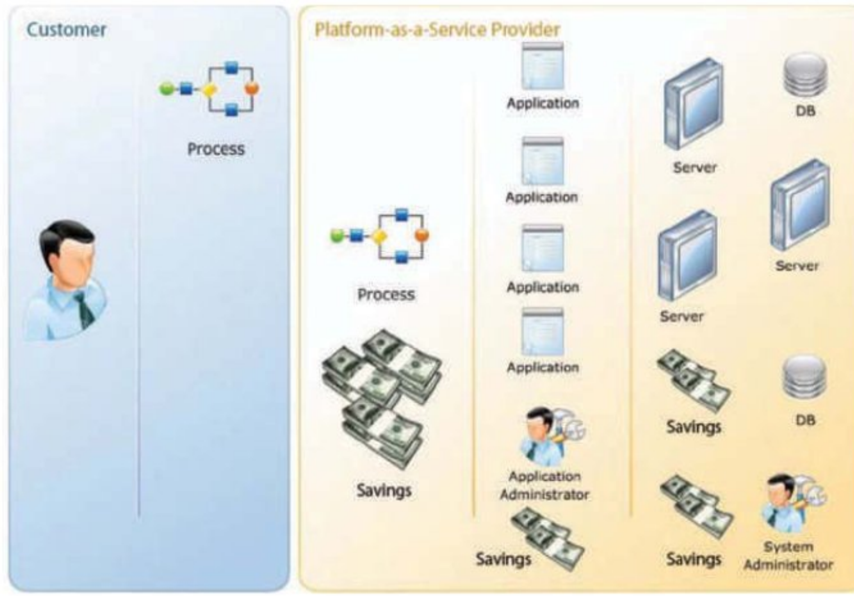
Global 2000 companies and small businesses worldwide have been using the cloud to achieve performance improvements such as increased productivity, reduced time to market, higher security and faster response to ever-changing market demands.

Learn how you can also quickly bring cost-savings, agility and collaboration to your company with the transformational innovations that Cordys and CSC bring.

Join Cordys (the leading business process innovation and enterprise cloud orchestration company) and **CSC** (the global leader in providing technology enabled business solutions and services) for executive informational sessions to prepare your organization for the industry's next wave of innovation and agility.

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For more information visit us at: **http://www.cordys.com/events** or contact us at: **info@cordys.com**

CORDYS The Intelligent Cloud Platform CSC



The Cordys Business Operations Platform securely places business processes in the cloud, letting the business quickly update systems to support changes - a merger, new compliance or product launches.

How Business Plugs into Cloud for Faster Change at Lower Cost

Cordys is among a new generation of cloud companies emerging to help organizations run business processes in a smarter way to improve their operational and financial results.

Cordys helps firms 'plug' into the cloud and obtain powerful business process management (BPM), integration and business dashboards. Notably, Cordys' offerings work with software that businesses already use, including Oracle, SAP and even home-grown applications. Among the documented results:

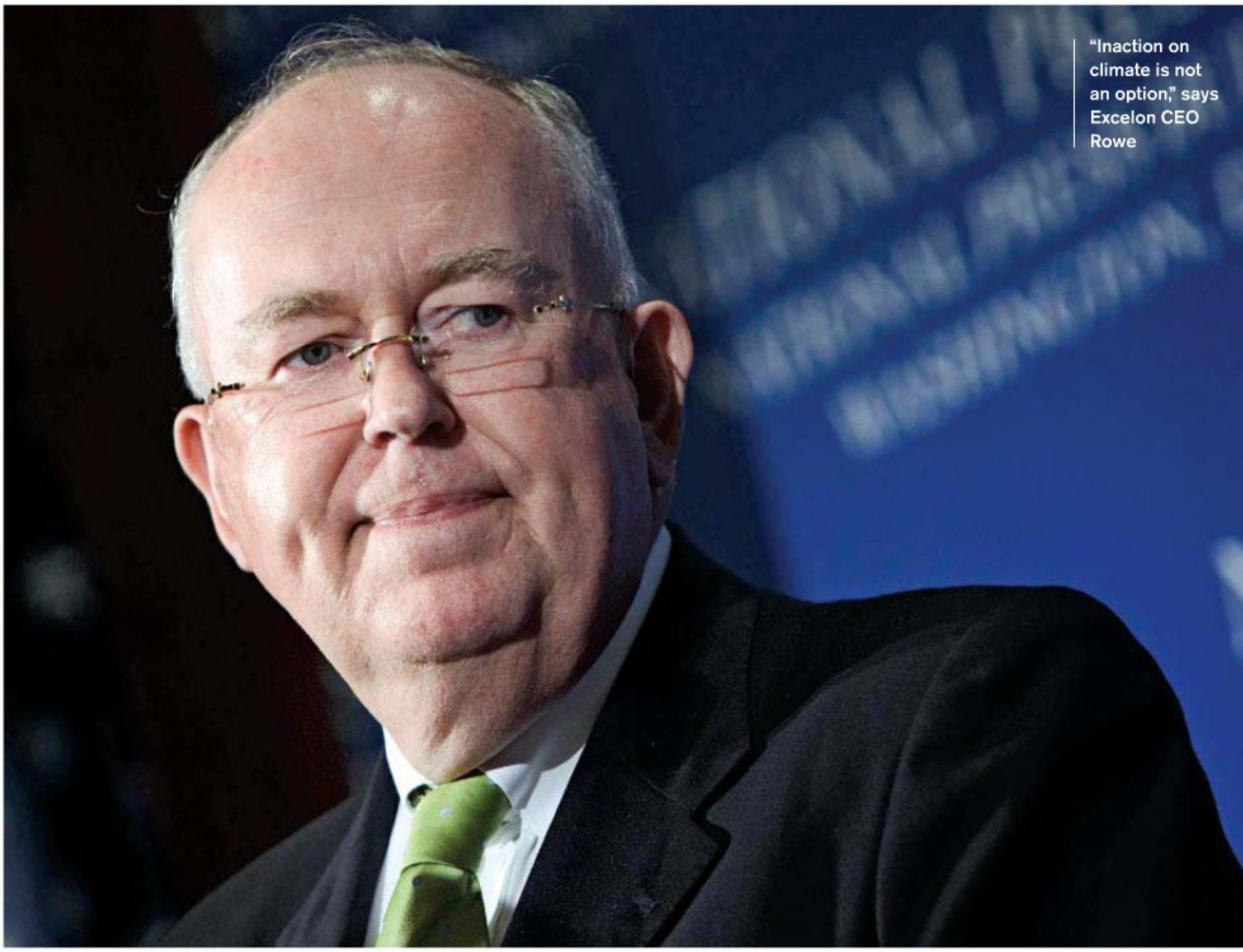
- Comcast uses cloud-enabled BPM to reduce costs in plant operations by more than 50 percent and increase revenues by millions through better customer serviceability data.
- USXpress, the US flagship truckload business leader, implemented their cloud-enabled BPM in just 60 days to optimize revenue opportunities across current operations and new acquisitions.

"All businesses need to react to changes across their value chains – sometimes immediately. The Cordys Business Operations Platform is ready today to rapidly address many issues, including a merger, a product change, or a new manufacturing partner," said Mark De Simone, Cordys' Chief Sales and Business Development Officer.

To help IT and business get started with the cloud, Cordys offers a simple '3+3+3' approach to the cloud: 3 days to spec a project, 3 weeks to design, test and implement the project, and 3 months to scale and go-live. With options like that, De Simone asks, "Why program SAP or Oracle for a change which is sudden and may change again rapidly?"

Cordys also offers, from the same platform, the ability for small businesses to use a simplified "Studio" to design and implement on-the-fly MashApps, across diverse platforms, and which are "consumable" as Google Gadgets and Widgets integrated in Google Apps and Gmail. "Cordys is helping both large corporations and SMBs obtain smarter, quicker and more impactful ways to bring people and information together," De Simone said.

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062 Big banks are imitating Mint.com
064 A la carte charges boost airlines
066 Hhgregg fills the Circuit City void



"Inaction on climate is not an option," says Excelon CEO Rowe

BRENDAN SMIALOWSKI/BLOOMBERG NEWS

MANAGEMENT & LEADERSHIP

The Clash Over Clean Power

Utility chiefs are juggling the conflicting goals of green energy and low rates—and self-interest reigns

By John Carey

Power companies used to have one simple task: providing inexpensive, reliable electricity to light up cities, power factories, and keep the economy humming. No longer. The once-stodgy utility industry is now in history's crosshairs. As the largest contributor to the emissions that cause climate change, it's being asked to spearhead a radical transformation to a cleaner, greener energy economy. This shift was a major topic at the G-20 meeting in September. And at the end of the month, the Senate introduced a bill to require reduc-

tions in greenhouse gas emissions, following up on a landmark bill the House of Representatives passed in June mandating an 83% reduction by 2050. If Congress doesn't act, the Environmental Protection Agency will. Either way, the electricity sector would be radically reshaped. "It will force a technological revolution," says James E. Rogers, CEO of Duke Energy, a utility headquartered in Charlotte, N.C.

The challenges for the nation's 3,273 utilities are huge. "Inaction on climate is not an option," says John W. Rowe, CEO of Chicago-based Exelon. "But we'll throw away billions of dollars if we screw up." A company could go out on a limb with a $10 billion nuclear plant, only to see demand plunge because of efficiency measures, or be undercut by cheap natural-gas-fueled electricity thanks to new gas field discoveries.

BUCKING POWERFUL INTERESTS

What makes the task even more difficult is a fundamental clash between the two goals that Rowe, Rogers, and other CEOs say they are passionate about: keeping power prices low to benefit customers and averting the potential catastrophe of climate change. The effort to curb emissions, after all, will significantly raise the price of coal-fired and other fossil-fuel-generated electricity and make alternatives more competitive.

In their search for clear rules, some CEOs have been willing to buck powerful business interests. In late September three major utilities, Exelon, PG&E, and PNM Resources, pulled out of the U.S. Chamber of Commerce because of the Chamber's opposition to climate legislation. Yet at the same time the utility industry has been working feverishly to shape the details of the legislation to its advantage.

The power of economic self-interest has also created clashes within the industry itself, since each twist of the coming regulations creates winners and losers among the individual companies. "We all have positions on these issues that reflect the different make-up of our generation fleets," explains Duke's Rogers. Billions of dollars are hanging on the legislation's details.

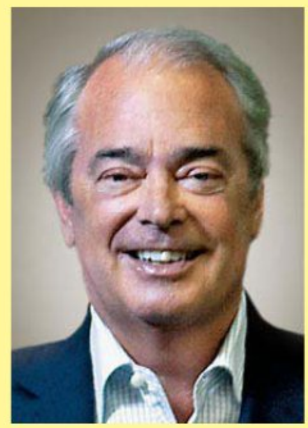
Embodying these tensions is a colorful and often fractious crop of CEOs. J. Wayne Leonard, CEO of New Orleans-based Entergy, for instance, has thought deeply about these questions. The son of an Indiana schoolteacher, he is self-effacing enough to be "amazed that a person like me ends up as CEO of anything," he says, yet he was one of the first utility chiefs to call for action on climate change. Entergy even filed an amicus brief on the environmentalists' side in the landmark 2007 Supreme Court case that affirmed the right of the Environmental Protection Agency to regulate greenhouse gas emissions. Most utilities weighed in on the other side. "Some of our board members thought we were going to bankrupt the company," Leonard recalls.

Those skeptical board members left or retired. "I'm a true believer," Leonard says. "It's hard for me to imagine why people would gamble with our planet." But he is also a shrewd businessman. During his 10-year tenure as CEO, Entergy has been at the top of utility charts, with a total shareholder return of 268% from 1999 to 2008, vs. 70.3% for the Philadelphia Utility Index and -13% for the Standard & Poor's 500-stock index. The gains came despite being burdened with overcapacity in natural-gas-fired plants and rebuilding efforts after the devastation of Hurricane Katrina. And Leonard is determined to deliver affordable electricity to his customers, many of them low income. Outside his office is a gallery of haunting photos of the poor and downtrodden he calls the Poverty Wall. "It reminds me, every day, this is what we do," Leonard says.

So when natural gas prices rose a few years ago, Leonard made a controversial bottom-line-driven decision: take a plant on the banks of the Mississippi and refit it to burn coal and petroleum coke instead of gas. The cost exceeded $1 billion. The move would increase emissions not just of carbon dioxide but also pollutants such as sulfur dioxide and mercury. "It was a tough one," Leonard admits. "We wanted more diversity in fuels and to reduce the price volatility."

FEUDING ALLIES

The CEOs of two powerful utilities are pushing hard for climate legislation, but they differ on how heavily the burden should fall on regions dependent on coal.



DUKE CEO ROGERS
71% dependence on coal-burning plants

"The national policy ... in the 1970s was to wean ourselves from oil by [building coal power plants]. It is fundamentally unfair to punish people for having carried out [that] policy."

"BIG TENSION"

The Sierra Club filed a lawsuit to block the plant, but Leonard was undeterred. Even if Washington raised the costs of using coal by requiring reductions of carbon emissions, the analysis showed it would be cheaper to pay someone else to make so-called offsetting emissions reductions than to keep using natural gas. "The savings we would have on fuel would pay for the offset, so the customer comes out ahead," Leonard argues. "Any time you give the customer more disposable income, that's a win."

In April, Entergy changed its mind, putting the project on hold. But it wasn't because of pressure from green

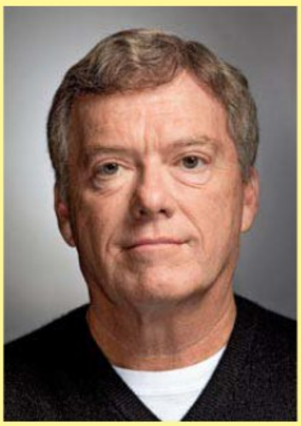
FERNANDO DECILLIS

groups—just the bottom line. The price tag for the retrofit had climbed to $1.76 billion, while natural gas prices had plunged. "That changed the economics completely," Leonard says.

For the Entergy chief the incident highlights the conflicting demands on CEOs. "Absolutely," he says. "There is a big tension that exists between doing what we believe is the right thing and trying to satisfy the needs of our customers."

Hypocrisy? Leonard's defenders won't hear of it, and they say his track record on climate issues has insulated him from attacks by environmentalists. "He's been by far the best CEO on the issue of climate," says one environmental policy expert.

Other chief executives haven't been so immune. Consider Duke Energy's Rogers, a former journalist and consumer advocate who rose rapidly once he joined the utility industry. While Leonard has been, until recently, a quiet behind-the-scenes voice, Rogers grabbed the spotlight as a strong and peripatetic advocate for action on climate change. In one recent month of meetings, he hopped from Copenhagen to Rome, zipped home to North Carolina, then went to China; Aspen, Colo.; Washington; Biloxi, Miss.; and Seattle. "What really makes other CEOs jealous is that he's on every conference, while the rest of us are slogging through personnel reviews,"



JEFFERY SALTER/REDUX

ENTERGY CEO LEONARD
3% dependence on coal-burning plants

Duke customers "have been paying 20% to 30% less than ours for 30 years because they've used coal. So there's more CO_2 in the atmosphere, which means we all have to reduce more because of what they did."

says David Crane, chief executive of Princeton (N.J.)-based NRG Energy. "All of us wonder, when does this guy run his company?"

Yet while Rogers has been on the road proselytizing, Duke has been working—and lobbying—fiercely to keep the climate rules from significantly raising the costs of electricity. Meanwhile, environmental groups have been trying to block two new coal-fired plants Rogers is building in Indiana and North Carolina. "He's the master of double-talk," says Frank O'Donnell, president of Clean Air Watch. "Under his leadership, Duke has one of the worst environmental records in the nation. What he's really trying to do is boost the value of his stock."

Rogers retorts that Duke is investing $1 billion in wind power, $2.3 billion in more efficient coal plants, $50 million in rooftop solar panels, and millions more in energy efficiency. He's also planning to build two zero-carbon-emitting nuclear plants while shutting down dirty coal facilities. "I don't see anyone walking the talk more than I do," he says. Plus, he says, environmentalists don't understand the conflicting pressures he must juggle: "They look at power totally through the lens of clean. They could care less if it is affordable and reliable."

Rogers says that, like any pioneer, he has taken more than his share of arrows. Many of them come from his fellow CEOs. The biggest clash sets Duke, American Electric Power, Peabody, and other coal-heavy utilities against Exelon, Entergy, and others with more nukes, natural gas, and renewables (table). "Cleaner" CEOs such as Entergy's Leonard are upset that the coal utilities—and the Midwest and Southeast regions they serve—have long benefited from lower electricity rates, and thus have had a competitive advantage, because of their polluting ways. "Their customers have been paying 20% to 30% less than ours for 30 years because they've used coal," Leonard says. "So there's more CO_2 in the atmosphere, which means we all have to reduce more because of what they did."

2.4
BILLION METRIC TONS

Carbon emissions from U.S. electric power sector, equal to 40% of all CO_2 emissions in the U.S.

Data: Environmental Protection Agency

FORGING A COMPROMISE

Rogers objects. "The national policy of the country in the 1970s was to wean ourselves from oil, so the government said, 'Go build coal and nuclear,'" he says. "Then Three Mile Island happened, and all we had was coal. Now it is fundamentally unfair to punish people for having carried out national policy." If coal utilities were asked to shoulder a bigger share of the cleanup, "people in Indiana would be subsidizing people in California, and that's wrong," says Rogers

Besides, Entergy and Exelon are clearly motivated by their own self-interest, Rogers adds. If electricity prices soar in the Midwest and Southeast because of higher costs for coal plants, then Wayne Leonard and John Rowe can make a killing selling electricity into those markets from their low-cost nukes. "Trust me, if Wayne was still in the Midwest where he grew up, his story would be different than with the hand he holds sitting in New Orleans, with lots of nuclear," says Rogers.

Under pressure from lawmakers and the White House to pass the House bill, the utility industry put aside its conflicts long enough to forge a compromise that doesn't give a big advantage to either faction. But few of the companies are happy with it. As the action shifts to the Senate, where

companies are pushing harder for their own interests, the fragile pact could fall apart. And the tiffs in this industry are a tiny slice of the larger battle as Republicans and business groups such as the U.S. Chamber of Commerce mount an all-out assault on the measure. After the high-profile defections, the Chamber now says it supports the general idea of carbon reductions but is still fighting the House bill. "An overwhelming number of our companies support our policy on climate change," says spokesman Eric Wohlschlegel.

CLEAR RULES

Some say the politics of climate change present insurmountable obstacles to legislation. But the landscape is shifting. More than half of the states have mandated certain amounts of renewable energy, and many are imposing carbon caps. In addition, most of the industry's leaders now agree with Leonard and Rogers on the need to tackle climate change—even as they wrangle to lessen the impact on their own companies. Moreover, they realize it's in their own long-term interests to get rules in place now, providing the certainty that may prevent them from making costly mistakes building new power plants. "If our country wants a low-carbon-generation portfolio, I can build it, but I need to know the rules now," says Rogers. Plus, starting sooner lowers the bill. "If we don't do anything now, it will cost many, many times more later," says Leonard.

It's also clear what policies provide the financial incentives for cleaner technologies. Raise the price of emitting carbon dioxide, as with a cap on such emissions, and there will be more money to be made developing low-carbon alternatives. "Let us make money by being green, harnessing the power of American capitalism to push change in the way society wants," advocates NRG Energy's Crane. "I would not apologize for having the profit motive."

Leonard is hopeful. "The line I always remember from Winston Churchill is that you can always count on Americans to do the right thing, after all other possibilities have been exhausted," he says. "The good news is that we're there." |BW|

INNOVATION & TECHNOLOGY

J&J Tries to Buy Itself a Pipeline

It's snapping up biotechs, spearheading innovative alliances, and reshuffling R&D



BILL CRAMER/WONDERFUL MACHINE

McCoy is filling the shopping cart as J&J-developed blockbusters go off-patent

By Arlene Weintraub

A year ago, when Sheri S. McCoy was picked to lead Johnson & Johnson's pharmaceutical division, she knew it would be the biggest challenge she had faced in 27 years at the company. J&J was losing patent protection on two giant products: treatments for epilepsy and schizophrenia. It didn't have a single product on the near horizon that could make up for the $7 billion in annual sales that would disappear when the two drugs went generic.

So McCoy, like many pharmaceutical managers, poured her energies into acquisitions, partnerships, and novel research collaborations, hoping to gain faster access to promising new markets. In July, J&J devoured Cougar Biotechnology for close to $1 billion. In early September it spent $885 million for an 18% stake in Elan Pharmaceuticals. And J&J will pay $441 million for 18% of Crucell, a Dutch biotech company that's developing vaccines—a new product line for the 123-year-old J&J. This last purchase was announced on Sept. 28, the same day rival Abbott Labs bought the drug and vaccine unit of Belgium's Solvay for $6.6 billion. Deals like these are unusual for J&J, but CEO William C. Weldon says McCoy has his full support. "We try to do our best with

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STALKING THE FUTURE

J&J lost patent protection on epilepsy and schizophrenia drugs worth $7 billion last year. These new drugs, if cleared by the FDA, could help offset the damage:

PRODUCT	PROMISE	PITFALL
YONDELIS For ovarian cancer	J&J licensed this anti-tumor agent, derived from the sea squirt, and plans to sell it as a combo with its own drug, Doxil	A request by the FDA for more information about the overall survival of clinical trial patients could delay approval
RIVAROXABAN For preventing blood clots	Developed with Bayer, it could be the first new oral anticoagulant in the U.S. since warfarin hit the market in 1954	The FDA is concerned about side effects such as excessive bleeding and has requested more data
COMFYDE For epilepsy	It could relieve "partial onset" seizures, the most common and difficult-to-treat type	The FDA asked for more data in August, and research setbacks are limiting the drug's usefulness for other diseases

Data: Company reports

our internal research," he told *BusinessWeek*, "but we recognize we need to look at other opportunities."

McCoy's mandate isn't confined to mergers and acquisitions. She is responsible for all aspects of drug development, from spotting potential hit molecules to devising marketing tactics. Laying out a strategy is challenging now, with the recession dampening pharmaceutical sales and debates over health-care reform raising questions about how drug companies will be reimbursed. In the first half of 2009, sales of J&J's prescription drugs dropped 12% from the same period a year ago, to $11.3 billion. Revenues also fell in J&J's consumer and medical-device units as customers kept their wallets shut. And J&J has had some regulatory setbacks: The Food & Drug Administration has issued a slew of requests for more data on drugs the company has submitted for review (table).

STRANGE BEDFELLOWS

One of McCoy's most controversial moves is the deal with Irish drugmaker Elan. She and her team were interested in a promising treatment for Alzheimer's disease in Elan's pipeline, but Elan already had a research partnership with Wyeth, which is being acquired by Pfizer. The deal thus plunges the normally conservative J&J into an unusual three-way research alliance. In the past, Weldon says, rivalry might have scuttled the partnership plan, but not anymore. "The cost of bringing products to market and the risk associated with them is so much greater in today's environment," he explains. Success may depend on "the ability to partner."

J&J initially agreed to invest $1 billion in Elan, but on Sept. 14 it had to renegotiate the price and restructure the deal to avoid violating Elan's contract with another partner. Even at the lower valuation, however, it's a risky bet, especially considering that Elan's lead drug has had mixed results in clinical trials. Investors were concerned that "the implied value was on the high side," says Sara C. Michelmore, an analyst for Cowen & Co, which does not have an investment banking relationship with J&J. "But gosh, it's about portfolio management." J&J needs some high-risk, high-reward products in its pipeline, she says.

J&J also has been shopping for companies to acquire outright—and there are plenty of cash-strapped biotechs searching for lifeboats. Cougar was one. The $953 million J&J paid in cash was a huge premium for a startup that's years away from having a commercial drug. But McCoy was impressed with the company's method of treating prostate cancer by inhibiting enzymes involved in hormone production—an approach that might also work in breast cancer. J&J hopes to enhance Cougar's method with technology from another subsidiary, Veridex, that lets oncologists count tumor cells in the bloodstream to assess how well treatments are working. Using this in clinical trials, "we think we'll be able to predict which patients will benefit from the drugs," McCoy says.

Even as the company explores partnerships, McCoy keeps her eye on internal research. One goal is to make the organization more entrepreneurial. In the past, J&J separated research and development by function—basic research, clinical, regulatory, and so forth. Instead, McCoy has set up five units defined by therapeutic focus: neurology, infectious disease, immunology, oncology, and cardiovascular and metabolic disease. Each unit has its own scientists and specialists versed in dealing with the FDA. And each has researchers dedicated to developing tests that will help doctors identify the patients most likely to respond to a new drug.

McCoy, who came up through J&J's consumer and medical-device divisions, concedes she may have blind spots when it comes to prescription drugs, but she's undaunted by her new challenge. "I'm never going to have the depth of expertise" in drugs, she says. "But I'm comfortable making decisions in a time of ambiguity." | BW |

Business Exchange

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Drugmakers Chase Vaccines
J&J, Abbott Laboratories, Merck, and others are once again buying or pairing up with vaccine makers. It's a major turnabout, as some of these players abandoned vaccines in the 1980s, notes a Sept. 28 article in *The Wall Street Journal*. "Big drug companies have reentered the business as prices have risen and researchers developed new technologies for improving production," the article says.

For this and related stories, go to **http://bx.businessweek.com/pharmaceutical-industry/reference/**

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Big Banks Take a Hint from Mint.com

Intuit wants to buy the online budget tool, and imitators are sprouting

By Lauren Young

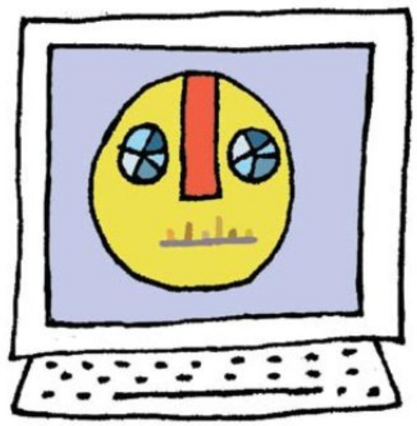
What's the hottest innovation amid the recession? Web sites that let users manage their spending and other financial decisions. In September, Intuit made a $170 million bid for Mint.com, the pioneering force behind the latest generation of personal finance tools.

Now some big global banks are piggybacking on the idea in an effort to boost loyalty and attract a younger clientele. In the latest example, Citigroup and Microsoft are teaming up to create Bundle, potentially a standalone site to compete with Mint, according to a Bloomberg article. Says Mark Schwanhausser, an analyst at consultancy Javelin Strategy & Research: "Mint has applied pressure on everybody to be more innovative."

The new personal finance tools at banks' in-house sites are similar to those at Mint. Customers can aggregate their data from several outside bank, brokerage, and credit-card accounts—and get their complete financial picture in one place. JPMorgan Chase's Blueprint lets the bank's 20 million credit-card holders design a plan to pay down balances. The Dutch bank ING is testing a service where customers can compare their spending habits to others.

The payoff could be huge, especially in terms of loyalty. Online banking customers check their accounts twice a week on average and are less likely to leave a bank, according to Brad Strothkamp, an analyst at consultant Forrester Research. Banks figure that the extra tools and resources will encourage even more customers to stick around. "If we have products, services, and the best experience, that will give us more of their business or attract new customers over time," says Eileen Serra, president of Chase Card Services, which launched Blueprint.

Banks also are hoping to attract a younger clientele. Mint's 1.5 million users tend to be young and upwardly mobile. The median Mint customer is 30 years old. It's a critical demographic for banks. Unlike baby boomers, members of the younger generation are just establishing their financial lives, making them a lucrative market for new mortgages and credit cards.



THE FOLLOWERS

Like Mint, banks are launching their own personal finance tools

JPMORGAN CHASE
Chase's new Blueprint service lets credit-card customers design a free plan to manage spending.

BBVA
With its Tú Cuentas service, the Spanish bank targets customers with personalized offers for products.

ING
Tim, a service the Dutch bank is testing in Europe, has a social-networking component and budgeting tools.

WELLS FARGO
Customers have set up 10,000 budgets per month on average since Wells Fargo added spending tools to its portal last October.

BANK OF AMERICA
The bank's personal finance management tool, My Portfolio, aggregates account data from dozens of sources.

TARGETED PITCHES

Ultimately, banks are hoping to cash in on those sorts of cross-selling opportunities. By mining data across several accounts, they can get a better sense of which of their financial products customers might want. "If you know what customers hold, you have a much better idea" of what services they need, says Javelin's Schwanhausser. Banco Bilbao Vizcaya Argentaria is among the first to pitch consumers; in late October, it will start selling real estate and rental services to customers in Europe through Tú Cuentas, its personal finance portal.

A similar strategy has been critical to Mint's success. In its "Ways to Save" section, the site makes targeted pitches to customers based on credit scores, purchase history, and other financial metrics. Right now, Mint is teaming up with banks, brokerages, and credit-card companies to develop tailored promotions, and it plans to expand into travel and auto insurance.

Mint makes most of its money off the promotions. CEO Aaron Patzer says 20% of customers that use the "Ways to Save" section check out the deals. (Traditional banner ads garner a click-through rate of roughly 1%.) Users also tend to buy: Depending on the category, customers will take advantage of the deals 20% to 40% of the time, estimates Patzer. "That's why Intuit is buying Mint," says Jim Bruene of Online Banking Report, a trade publication. And it's why banks are following the site's lead. | BW |

—With Aaron Ricadela in San Francisco

SCOTT MENCHIN

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Coffee, Tea, Or Doggie Hoodie

From baggage to blankets, à la carte charges are becoming significant revenue sources for airlines



By Esmé E. Deprez

Just a few years ago air travel was simple: Buy a ticket, fly. But as airlines hunt for new revenues to help them weather the recession, their goal is to make fares just one piece of the travel experience. Whether it's a fleece-blanket-and-travel-pillow set (US Airways) or extra frequent-flier miles (United Airlines), the airline cabin has become a bazaar, and the selling has only just begun.

Ancillary revenues—products and services airlines can sell à la carte—are becoming a vital financial lifeline for airline balance sheets amid weak travel demand. That's one reason JetBlue sells a $15 "doggie hoodie" for your pooch or a $225 model of an Airbus A320. Allegiant Air, a U.S. pioneer in à la carte pricing, knows that most of its customers are on leisure trips to Las Vegas, Florida, or Arizona. So midway through the online ticket-booking process, the Las Vegas-based company offers to create a book of your trip photos for $59.99.

Allegiant, perhaps not coincidentally, is one of the few profitable U.S. airlines, with nearly 23% of its $504 million in 2008 revenue coming from ancillary sources. Worldwide, such revenue for all airlines totaled $10.3 billion in 2008, up 346% since 2006, according to a study by market research firm IdeaWorks. "If it weren't for ancillary revenue, we probably would have seen at least one of the major airlines fail, given the recession," says IdeaWorks President Jay Sorensen.

The trend is further blurring the lines between legacy air carriers and discounters. Sorensen predicts that in the next five years, "the entire domestic coach travel experience will be very similar" to that of the discounters as legacy carriers continue to charge extra for products and services. Food, checked luggage, staff assistance at check-in, and even paying with certain credit cards will incur separate fees, he expects.

Airlines argue that they have little choice: Low fares do not cover their costs, and charging for products and services represents one of their few options for survival. "The airlines have been in negative returns since the days of Orville and Wilbur [Wright]," says Daniel P. Garton, executive vice-president for marketing at American Airlines. "We need to figure out how to get some new revenue." Historically, fares have played the central role in revenue performance, yet carriers have been savaged in recent years as ticket prices have plunged.

BAGGING PROFITS

Checked bag fees imposed by many U.S. airlines in 2008 have soared, helping carriers' balance sheets



Data: Bureau of Transportation Statistics

Passengers could be forgiven for wondering where the new charges might end. Is air travel destined to be dominated by ultra-spartan flights, such as those pioneered in Europe by Ryanair? Michael O'Leary, Ryanair's CEO, has even proposed installing credit-card-operated toilets. Says Forrester Research travel analyst Henry Harteveldt: Airlines are "just trying to figure out how much is too much."

THE NEW REALITY

Carriers are learning that some fees are more palatable to travelers than others. Checked luggage is one of the most successful new revenue sources—the top 10 U.S. airlines collected $670 million in bag fees in the second quarter, a 276% jump from the prior year, according to the Bureau of Transportation Statistics. American led the way in June 2008 with a $15 fee to check a first bag, and nearly every other U.S. carrier has matched that. Bag fees have migrated to international travel, with many U.S. airlines charging $50 for a second piece of checked luggage. On Sept. 25, British Airways announced new charges as high as $97 per one-way flight for travelers who

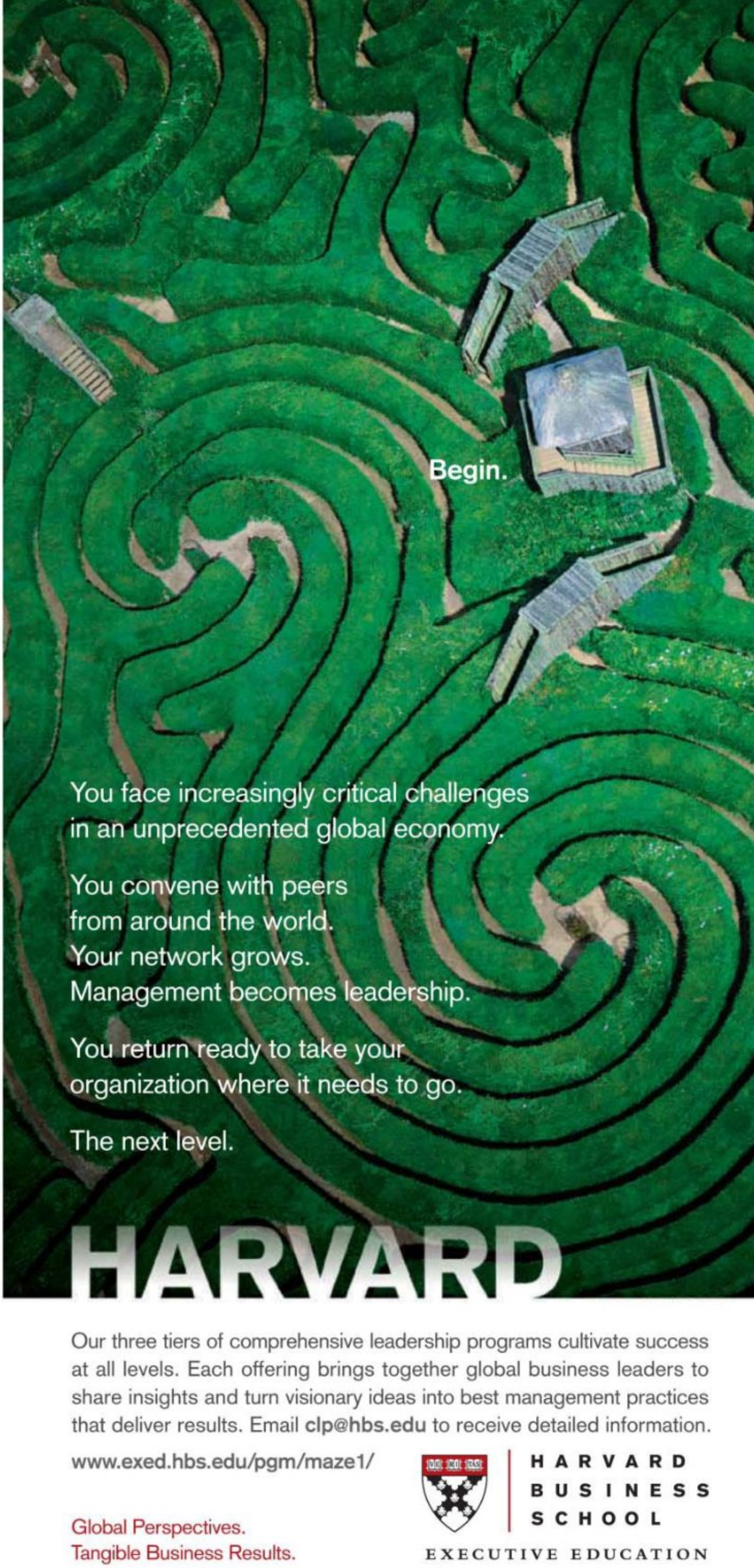
ILLUSTRATION BY ACME ILLUSTRATORS; CHART BY LAUREL DAUNIS-ALLEN/BW



want assigned seats sooner than 24 hours before departure.

While it may take time to adjust to the new reality, consumers could ultimately benefit. With an à la carte approach, fliers will no longer be subsidizing products or services they don't use. Passengers can also expect a more customized experience as airlines track individual preferences. For example, if you typically buy a glass of red wine on evening flights or skip the nonstop to your destination because a layover is cheaper, an airline could recognize those habits. Then the company might ask if you want to pair your wine with a cheese-and-fruit plate or to switch to the nonstop flight for an extra fee.

Fees have not infiltrated many of the long-haul premium carriers, which depend heavily on corporate travelers and others paying lofty fares. Some premium service airlines even view the trend as dangerous and avoid any initiative that could be construed as nickel-and-diming passengers. "We must not hurt our product and our brand, and it's very difficult" to chase new revenue sources, says Patrick Brannelly, a vice-president at Dubai-based Emirates. That's why courting affluent travelers with a luxury experience—and the higher fares that commands—is critical. "Service," he says, "is revenue." |BW|





CEO May: Focusing on Circuit City's most lucrative markets

MATTHEW GILSON

STRATEGY & COMPETITION

A Contrarian Electronics Chain

In a tough time to sell TVs, upscale Midwest retailer hhgregg is rushing into the void left by Circuit City

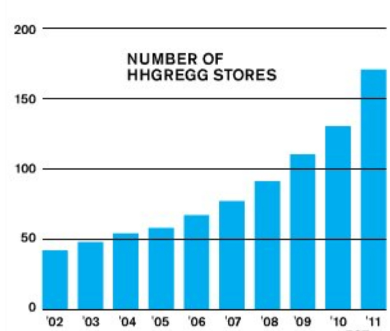
By Matthew Boyle

When Circuit City collapsed in January, many retail experts thought Best Buy and Wal-Mart Stores had the most to gain from the closure of the consumer-electronics chain's 567 stores. But one retailer has seized the opportunity like no other: Hhgregg of Indianapolis. The 118-shop chain is invading Circuit City's former home turf in and around Washington and even taking over some of its old locations. Hhgregg's goal: to open more than 50 stores over the next 18 months. "When a window opens, we take advantage," says CEO Dennis May. "Circuit City's demise no doubt is a big part of that opportunity."

Hhgregg's ambitious plan carries significant risk. The history of electronics retailing is littered with chains that grew recklessly, from Crazy Eddie to Good Guys. And the chain is investing at a time when consumers aren't spending as much on TVs and home appliances, which together make up about 85% of hhgregg's $1.4 billion in sales. (The U.S. Census Bureau estimates sales at electronics and appliance stores fell 10.4% in August from the previous year.)

Hhgregg also has an unusual business model. Founded in 1955, it's in some ways a throwback to an earlier era of retail. Its stores are smaller than the typical Best Buy and eschew its cluttered racks of low-margin DVDs and CDs. "Unlike Circuit City, which made the mistake of trying to be more like Best Buy, hhgregg distinguishes itself in the market," says Jefferies & Co. analyst Daniel Binder. Its salespeople are also paid primarily on commission, which May says fosters more loyalty and a stronger team. That was the industry norm until Best Buy abandoned the practice in 1989, believing it fostered pushy sales tactics (Circuit City followed later).

EXPANSION PLANS



Fiscal year ending in March
Data: hhgregg, SunTrust Robinson Humphrey

To help avoid that peril, hhgregg gives employees 280 hours of training in their first year to make sure they understand fully the ins and outs of the 100-plus TVs and 400 appliances carried in stores. The result, says May, is "high-caliber people who know the product and know how to sell."

The chain focuses on pricier models with higher profit margins. Bob Perry, an executive vice-president at Panasonic Consumer Electronics, says more people buy its $3,500 60-inch G10 plasma TV at hhgregg than at any other regional chain. That helps explain why the company boasts a gross profit margin of 31%, while Best Buy's is 25%. "Hhgregg makes its dough on the upper end," says Craig Johnson, president of consultant Customer Growth Partners.

While its upscale ethos has hurt it as consumers have traded down to cheaper products, analysts say the company has taken some smart steps to ride out the recession. It started selling video game consoles and netbook computers to keep traffic stable. It has also focused on Circuit City's most lucrative markets. Moreover, by opening several stores in an area at once, hhgregg spreads out the costs associated with expansion. It also sends top managers to the new regions to ensure that its corporate culture takes root.

Despite the risks, investors support May's ambitions. They have pushed shares up 91% so far this year, to nearly 17, compared with 36% for Best Buy. They're betting hhgregg will thrive in markets where others have failed. |BW|

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MONEY REPORT

THE HUNGER FOR SARA LEE



Shares of Sara Lee jumped as much as 8% on Sept. 25, to 11.36, on news that the company's global body care and European detergents businesses would be purchased by Unilever for almost $1.9 billion. The same day, Sara Lee's board authorized a $1 billion share repurchase program, and CEO Brenda Barnes revealed that the company intends to pursue other divestiture options for the remainder of its household businesses in order "to concentrate on our core food and beverage businesses." ¶ Barnes noted that this segment of the business, which includes the Ball Park and Jimmy Dean brands, can generate superior shareholder returns. But analysts at BMO Capital Markets are maintaining a price target of 12 since they expect the deal to have a neutral effect on fiscal year 2010 earnings. Their report did note, however, that they "would not be surprised if [Sara Lee] used the proceeds for acquisitions in its core categories." In which case the stock could stand a better chance of re-reaching its 1998 peak of 26.86. *–Tara Kalwarski*

BONDS

MUNIS: ROOM TO RUN?

The Barclays Capital Municipal Bond Index is closing in on its best quarterly showing in almost 15 years. Through Sept. 29 the index returned 7%. Investors have taken note, and muni fund inflows topped record highs in recent weeks. High demand and below-average supply have pushed muni prices up, and, as a result, yields on AAA-rated munis are near all-time lows. "It's a lot tougher to make the argument for munis today than it was even a month ago," says Hugh McGuirk, head of municipal investments at T. Rowe Price.

Still, McGuirk thinks munis have room to run. He notes that yields on lower-rated investment-grade munis (AA- to BBB) remain above long-term averages. And the Build America Bond program, which gives state and local governments a subsidy on taxable bonds issued for capital projects, will continue to take supply from traditional munis through 2010. In essence, McGuirk believes that the same amount of demand will chase a smaller supply. The caveat? "When interest rates rise, you will lose money," he says. *–T.K.*

7%

Return on the Barclays Capital Municipal Bond Index during 2009's third quarter*

*as of Sept. 29
Data: Bloomberg

COMMODITIES

COOLING COPPER

Copper prices have soared 90% in 2009, as the metal benefited from massive stockpiling by China and a recovering global economy. But the hot streak may be ending, says Bay Crest Partners' Blaze Tankersley. Chinese imports are down 42% from their June high, and copper inventories jumped 15% in September, the third month of increases.

Copper prices have historically depended on construction to spur demand, but a new building boom is unlikely to emerge soon. "I find the prices almost fundamentally insulting," says Tankersley. He recommends selling copper futures at $275 to $282 a pound—they closed at $272.90 on Sept. 29—and believes they could trade as low as $200 by the end of March 2010. (He made a similar call in August 2008, when he correctly said copper would fall from $300 to $150.) Investors could also short the iPath Dow Jone-UBS Copper SubIndex Total Return exchange-traded note at around 37.70, he says, just above its Sept. 29 close of 37.49. *–Ben Levisohn*

THE MARKET

BRACING FOR A SELL-OFF

By Ben Levisohn

Investors have a right to feel sunny. The recession has most likely ended, analysts are raising predictions for third-quarter earnings, and the Standard & Poor's 500-stock index is up 56.8% since its March low. So why are some prominent fund managers feeling gloomy? ¶ All of the managers featured in this story bumped up equity exposure in their portfolios earlier in the year—they are not permabears. But some look at the economy and still see troubling signs of stress. Others have analyzed the stock market's rally and determined that it may have come too far, too fast, and are preparing their portfolios for a market sell-off.

The Hedger

JOHN HUSSMAN
President, Hussman Investment Trust



During the first quarter of 2009, when the S&P 500 fell 12.7%, John Hussman watched the $5.2 billion Hussman Strategic Growth Fund gain 7%. That wasn't the result of brilliant stock picks, although his selections did outperform the market. Rather, it had to do with a strategy Hussman uses to hedge his portfolio with option contracts. He has employed it since opening his Ellicott City (Md.) fund shop nine years ago.

Hussman sells calls (options betting that the stock market will climb) and buys puts (options betting the market will fall) on the S&P 500, Russell 2000, and Nasdaq 100. When he hedges the entire dollar value of his portfolio, as he did at the start of 2009, he's betting that his stocks will gain more (or lose less) than the general market. As a result, he should make (or lose) the difference between the return on his stocks and the overall gain or loss from his hedges. So while his stocks rose just 1.45% from January to March, his fund was up 7% because the market dropped 11% and his hedges paid off.

As the market turned in March, Hussman stuck with his portfolio of companies with stable sales and operating margins, including AstraZeneca, which is 3.5% of the fund, and Johnson & Johnson (pages 58 and 70), at 3.19%, rather than follow the crowd into beaten down financials and cyclical stocks. He also bought call options, a bet that the stock market would rise. That gave him exposure to the overall market without having to buy companies he didn't want to own for the long run.

As the market climbed, so did the value of the options, reducing some of the fund's losses from hedging. (It was down 0.8% in the second quarter, compared with 23.8% for the S&P 500.) But in late September, he sold the call options, judging the market "strenuously overbought." Translation: Stocks are not cheap. He calculated that at current prices, stocks would return just 6.6% annually, well below their historical levels of about 10%. Market volume, too, has been underwhelming, an indication that many investors prefer to sit on the sidelines. Add in tough economic conditions, and the rally could be coming to an end. "I'm extremely concerned we've put a Band-Aid over an infection," Hussman says.

The Technician

BARRY JAMES
President, James Investment Research



Back in February, Barry James, president of Xenia (Ohio)-based James Investment Research, started adding stocks to the $545 million James Balanced Fund. His timing was off—it usually is, he says, since the technical indicators he follows tell him what's going to happen but not when. Nevertheless, he continued buying equities through the market's low and into April and May, bringing the fund's equity position from under 35% to 55% at its peak. (In a "normal" market, James usually has a 50/50 split between stocks and bonds). But like Hussman, James thinks the market has overreached. During past



rallies from extreme sell-offs, markets peaked when 70% of stocks had traded above their 50-day moving average, or the average stock price over a 50-day period. That number is now near 90%, says James.

Investor sentiment has reversed from March lows as well. Then, the investor sentiment surveys James follows showed most shareholders to be bearish. Now less than 30% of investors say the market is due for a near-term fall. "That's never a good sign," says James. He expects a drop of at least 20% in the next few months and has cut his fund's stock position to 40%. He is putting money into sovereign debt from countries such as New Zealand and Australia that offer higher rates than do U.S. Treasuries. He also likes gold and silver producers, including Barrick Gold and Silver Wheaton, which should benefit if the dollar continues to fall. The James Balanced Fund is up 5.91% this year, after being down 5.5% in 2008.

The Fundamentalist

JOHN LEKAS
Manager
Leader Short-Term Bond Fund

On Mar. 31, John Lekas, the Portland (Ore.) manager of the $205 million Leader Short-Term Bond Fund, predicted that the Dow Jones industrial average would hit 9,600. For clients whose money he manages outside of his fund, that meant a move into stocks. But when the Dow hit his target on Aug. 25, Lekas didn't like what he had seen. The market's rally was driven by sentiment, and the fundamentals hadn't improved enough to justify those gains, he says. There was still too much debt on corporate balance sheets, with around $2 trillion, or 65%, coming due in the next four years.

While refinancing most likely won't be a problem, he says, the new debt will be more expensive, so simply making interest payments will eat up more cash. Meanwhile, companies will find it difficult to boost revenue to make up the difference. To maintain profits, they'll need to lay off more workers. Lekas believes unemployment could hit 16% by the end of 2010. That poses a problem for the markets. "If you don't have real organic growth, you're not going anywhere," he says. By yearend, Lekas expects a Dow of 6,300, a 35% loss from today. He's dumped most of his equity positions in favor of cash, Treasuries, and short-term bonds. (He made a similar decision in January 2008, protecting his clients from much of that year's losses.) Only 10% of his clients' portfolios are in stocks.





The Stockpicker

SHAHREZA YUSOF
Head, U.S. Equities
Aberdeen Asset Management

Aberdeen U.S. Equity fund had a tough 2008—the large-cap growth fund lost 41%—and this year began with more of the same. "The world looked like it was going to end," says Shahreza Yusof, head of U.S. equities at the U.S. affiliate of global money manager Aberdeen Asset Management. "And there's no point investing in an end-of-world scenario." Instead, the fund held on to its financial stocks even as the crisis deepened. Top holdings (as of Aug. 31) such as Oracle and Philip Morris International helped it gain 29.9% this year.

Lately, Yusof has been lightening up on stocks that have had the largest gains since their 2009 lows. From June to Aug. 31, the fund cut back on shares of graphics-processor maker Nvidia by 37% and info tech provider Cognizant Technology Solutions by 27%. Yusof moved the money into stocks that have lagged the market, boosting positions in Kellogg and medical-supply company Baxter International by 50%. |BW|

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Bull Run Blues
The rally in stocks is "one of the least joyous bull runs in memory," said a Sept. 17 *Los Angeles Times* article, as investors worry about its "unexpected length and magnitude." Market pros are surprised there hasn't been a 10% to 15% correction during the rise. That would be normal in a longer-term bull run and give economic fundamentals time to catch up with "exuberant expectations."

To read the full article, go to
http://bx.businessweek.com/us-stock-market/reference/

J&J Tries to Buy Itself a Pipeline

(FROM PAGE 058)

By Aaron Pressman

Shares of Johnson & Johnson didn't hold up as well during last year's market plunge as they did in prior downturns. After the Internet bubble burst in March 2000, for example, J&J shares actually rose, gaining 65% through the end of the bear market in October 2002. But last year, the diversified health-care giant saw its shares tumble 31%, from over 70 to under 50, in just six months.

Since the market bottomed in March, J&J shares have recovered, currently standing at about 61. Analysts who follow the health-care sector say there's more good news to come, and the shares remain a solid long-term bet.

The company is gearing up for growth with smart acquisitions, according to Herman Saftlas, an analyst at Standard & Poor's Equity Research. It closed a $1 billion deal for Cougar Biotechnology in July, so it now owns the up-start's promising array of cancer medications. The deal follows an ongoing string of successful acquisitions starting with the drugmaker now called Centocor Ortho Biotech Products, which it bought for $5 billion a decade ago, he says.

Analysts expect J&J to continue making modest acquisitions of promising smaller companies while shunning the megadeals that some of its rivals have done. "This is their philosophy, and this is what has worked for them for a while," says Saftlas. "I don't see them going for a major merger."

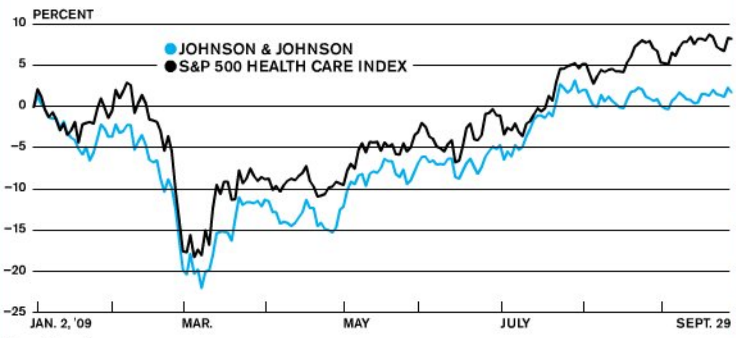
"POTENTIAL BLOCKBUSTERS"

Like other drugmakers, J&J is suffering in the short-term as some of the company's best-selling drugs lose their patent protection. For the first six months of 2009 pharmaceutical sales declined 12%, to $11.3 billion. Epilepsy treatment Topamax and antipsychotic treatment Risperdal generated combined revenue of over $6 billion in 2008. But sales are dropping this year, courtesy of generic copycats that have grabbed market share after the expiration of the patents for Topamax in March and Risperdal in June 2008.

The drug division should be able to get back on track over the next 18 months with as many as six potential blockbusters, says Morningstar analyst Damien Conover. Several of those products could exceed $1 billion in annual sales, he notes. A promising pain medication, Tapentadol, has already been approved and should go on sale soon. The company could also regain market share for the treatment of epilepsy with a drug called Comfyde. But Conover says approval from the Food & Drug Administration is far from certain, and discussions with the agency are ongoing. Other future products offer treatments for arthritis and cardiovascular problems. "It's hard to find any other company that has as many drugs that could hit the $1 billion mark," he says.

Meanwhile, the company's consumer segment, which sells everything from Band-Aids to baby shampoo, has been hit by the economic downturn. Sales in 2009's first half slipped 7%, to $7.6 billion. The division should benefit from an improving economy over the next few years.

ON THE ROAD TO RECOVERY?



Data: Bloomberg

The risks to health-care companies from reforms in Washington have also held back J&J shares. But reform could end up helping the company's bottom line. That's because the drug industry is negotiating limited price cuts while pressing for broader insurance coverage. The situation is "most likely a wash" for J&J, but it could easily turn out better than many investors expect, says Conover. "The outlook is so negative, there's potential for upside on the stock," he says. | BW |

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PRODUCTIVITY

TIME FOR A TIME CHECKUP

By Ellen Joan Pollock

This is a tale of obsession, passion, and guilt. You guessed it: The subject is time management. ¶ Six months ago, I embarked on a mission to wring a few more hours of productivity out of my week. I chronicled my work with a coach in an article in *BusinessWeek*. If you missed it, shame on you. But I'll save you the time of thumbing through past issues or firing up your laptop and recap: I'm the executive editor of the magazine you are holding, and I work a frightening number of hours each week while keeping my fingers crossed that my 11-year-old is eating at least a gram or two of protein and has not taken up smoking.

Marian Bateman, a nurturing and utterly delightful senior coach at David Allen Co., walked me through the many steps it takes to set up the "Getting Things Done" (GTD) method created by her company's founder. I "collected" and "processed" my stuff. I reconfigured the task function in Microsoft Outlook in unimaginable ways. I set up systems of folders with the help of a handy-dandy labeler that now feels like a beloved family member. And when I promised editors here that I would do a follow-up in six months, there was swagger in my step.

I'd absorbed the "tricks and tips" of GTD, not to mention an annoying amount of its lingo. But I had failed to do my "weekly reviews"

A bit too much.

As I write this I'm dangerously close to blowing my deadline. Would I be further along if I had "captured" this article as a "project" in my Outlook task function and broken it down into a series of "next actions"? Why hadn't I put my deadline on my "hard landscape," aka a calendar?

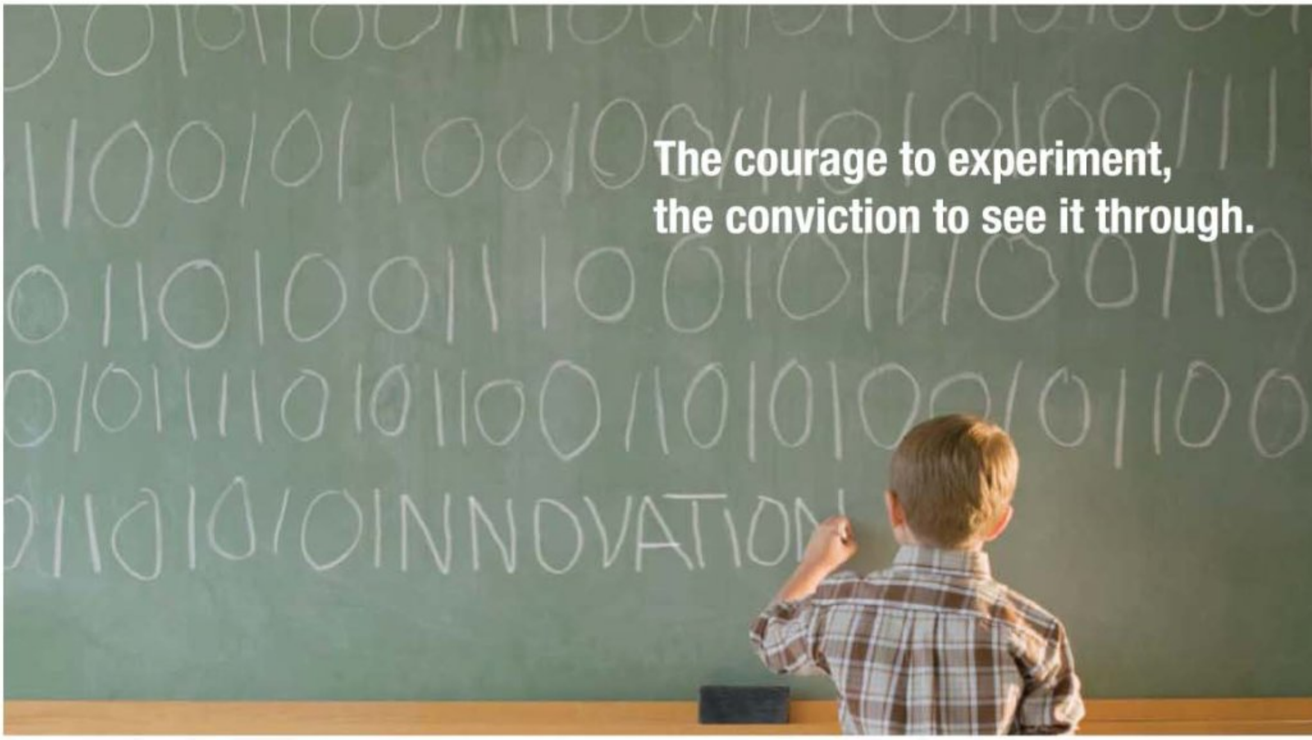
Even before the GTD master himself called me on my cell phone—at the exact second scheduled, I might add—I knew where I'd failed. I had absorbed what David Allen calls the "tricks and tips" of GTD, not to mention an annoying amount of its lingo. But although I had been dutifully using my task list to remind myself to pay my daughter's dashing but pricey orthodontist, I had done nary a "weekly review." That's the roughly hour-long process by which Allen's acolytes close their office doors and regroup by sifting through their in-boxes, calendars, projects, "action support" folders, and brains. (That last bit is called a mind sweep. Sorry.)

A "MIND LIKE WATER"

Does it really matter that I blew off the weekly review? Allen says it does, and many of the roughly 1 million folks who have bought his *Getting Things Done* book would agree. The whole point is to empty your head so you can "start with a clear space," Allen told me. Without that you can't "calibrate new stuff against your inventory because you don't know what your inventory is." The goal is to have a "mind like water," a phrase Allen borrowed from karate. (Somewhere along the way, he found time to earn a black belt.) If you throw a pebble into a still pond, it will respond appropriately to the "force and mass of the input, then it returns to calm," he explains in his GTD book.

I'd be the first to admit that my mind's consistency is more like overcooked oatmeal than water. But percolating up through the gooey mess was a thought that had nagged at me ever since I had taken GTD out for a test drive. Didn't this whole GTD thing involve an awful lot of rules, if not outright orthodoxy? Allen didn't seem too happy when I mentioned the word "cult." He didn't agree with the rules part





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Sarita E. Brown
President,
Excelencia *in Education*

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Dr. Joseph S. Renzulli
Professor, Educational Psychology,
University of Connecticut

Renzulli, director of the National Research Center on the Gifted and Talented at UConn, is an innovator in the field of education for gifted and talented children. He developed theories and strategies used in thousands of schools across the United States to improve gifted and talented education. His groundbreaking work also contributed to effective educational strategies for all children.

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The Harold W. McGraw, Jr. Prize in Education



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and reminded me that some very independent people use GTD. Surely the idea of keeping track of stuff and reviewing it from time to time is a pretty good one. But do you have to have the fervor of Allen's more than 1.1 million Twitter followers—growing at the rate of more than 4,000 fans a day—to make that happen?

To answer that question I decided to get in touch with Leo Babauta, who writes on productivity from Guam. His blog, Zen Habits, has 137,500 subscribers. Leo—he just doesn't seem like Mr. Babauta—has tons of followers on Twitter, too, though not nearly as many as Allen. (This is not a contest, guys!) Once a big fan of GTD, Leo decided it was too complicated and created his own version, Zen to Done. In his e-book on the subject he complains that GTD "focuses more on the capturing and processing stages than it does on the actual doing stage."

Getting to Leo was a lot harder than reaching Allen. While GTD counsels processing e-mail in-boxes to zero, Leo had decided to throw his overboard. In a July blog post he announced that henceforth Twitter would be his "main form" of communication.

I didn't like the idea of contacting Leo with a public Twitter post. After a bit of hunting, I finally found his e-mail address and zipped a message off. An "autoresponder" replied with a six-step process for scheduling a phoner. One involved entering the e-mail address for Leo's Google calendar into a "guests" field in Outlook. The address had a stew of 26 letters and numbers before the @.

This may save a lot of time for Leo, but it had just soaked up more than half an hour of mine. I dashed off a polite but whiny response saying I was having none of it. By then it was approaching 1 a.m., and Charlie the puppy was pulling at my pant leg to remind me I was late for his nightly 12:30 a.m. game of fetch.

TAKING BABY STEPS

Several days later, Leo and I finally touched base the old-fashioned way—by phone. He was sympathetic about my guilty conscience on the weekly review front and said he had felt much the same way. "As great a system as it is," he said, "there is just too much overhead—reviewing, collecting, planning." His theory is that habits are only formed "one little baby step at a time." He reported that since publishing Zen to Done in late 2007, he'd traveled farther along

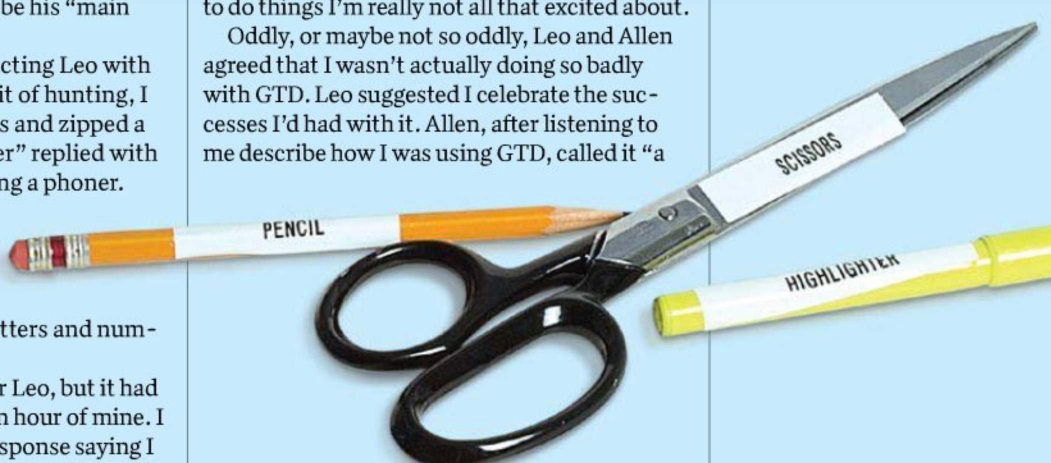
1,116,159 | **Number of people following David Allen (as gtdguy) on Twitter**
Data: *BusinessWeek*, as of 10:57 a.m. on Sept. 30

the road to simplicity, and he shared his current secret for productivity success.

He keeps a text file on his computer. Anytime he needs to do something, he just pops it onto the list. It's all part of his quest for minimalism, laid out in *The Power of Less*, published in January. "Basically I have a new philosophy of just following my passion," he says. "I do things that I'm excited about. I know it sounds New Agey."

A text file. That sounded remarkably like the simple "to do" list I'd always kept in a notebook. That's the list that got me into trouble in the first place. As my personal and professional lives grew more complex, it was never quite enough. I suspect I'm as passionate about my work as Leo is about his. But sometimes I have to do things I'm really not all that excited about.

Oddly, or maybe not so oddly, Leo and Allen agreed that I wasn't actually doing so badly with GTD. Leo suggested I celebrate the successes I'd had with it. Allen, after listening to me describe how I was using GTD, called it "a pretty good stick rate." It takes about two years for GTD to become second nature, he said, adding that he hoped our conversation would spur me to give the weekly review a shot.



So maybe I'll crack open David Allen Co.'s three-CD set on weekly reviews that has been gathering dust in my living room for the past six months. Or check out the "tweekly review" seminar that a David Allen coach recently tweeted on Twitter. I might even buy one of the "mind like water" T-shirts now 25% off on the official GTD site. "If you do enough weekly reviews," Allen says, "you can't stand not doing them."

We'll see. | BW |

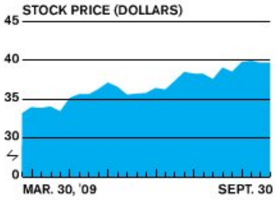
—With Ellen Gibson



HEINZ IS LOOKING RICHER

Major food processor H.J. Heinz (HNZ) is ranked highly for safety and price stability by research outfit Value Line, even though Wall Street isn't too impressed with it. But that may change, with some pros suggesting that Heinz is apt to attract suitors precisely for its fundamentals, undervalued assets and underpriced stock.

SOON TO BE A TAKEOVER TARGET?



Data: Bloomberg

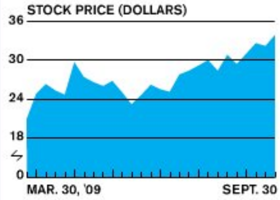
Featured in this space in April when it was trading at 33 a share, Heinz has since climbed to 39.69 even though only 7 of 19 analysts rate it a buy, 11 are neutral, and one tags it a sell. But Heinz "will likely be on top of the list of food companies that will be a takeover target," says Mark Boyar, president of Boyar Asset Management, which owns shares. Known for its familiar Heinz Ketchup, it also makes other brand products such as Ore-Ida potatoes, Classico pasta sauce, and Plasmon baby food. On assets alone, says Boyar, Heinz is worth 50 a share, but it could fetch a premium price of 65 in a takeover for its cash-generating qualities and hefty 4.2% dividend yield.

Standard & Poor's Tom Graves says what's alluring about Heinz is its growth in emerging markets where sales are rising faster. Some 55% of sales come from outside the U.S. Rating Heinz a buy, Graves upped his 2009 forecast to $2.78 a share from $2.74 and 2010 to $3 from $2.93.

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ON A BON VOYAGE



Data: Bloomberg

Carnival Cruises Along

Despite the soft economy and weak consumer spending, the world's largest cruise line, Carnival (CCL), beat the Street's third-quarter forecasts. Stronger-than-expected ticket pricing in the summer helped results, notes Robert LaFleur of Susquehanna Financial Group, who rates the stock a buy. It has sailed to 33.28 a share from 20 in March. Bookings for the remainder of the year and for the first half of 2010 are running 19% ahead of the prior year, says LaFleur. So he bumped up his 2009 earnings forecast to $2.17 a share from an earlier $2.09, and his 2010 estimate to $2.65 from $2.29.

Joseph Hovorka of investment firm Raymond James upgraded his rating on Carnival to a strong buy from market perform, with a 12-month target of 42. One reason: Bookings are picking up, the analyst says, while pricing may have reached bottom.

THE PIPELINE SEEMS PROMISING



Data: Bloomberg

Access Pharma: In the Pink

As major pharmaceuticals seek companies with a pipeline of promising drugs to augment their own depleting inventories, some pros bet that one target will be Access Pharmaceuticals (ACCP), now at 2.85 a share. It hit a high of 17 in 2005. Its drug MuGard, approved by the FDA in 2007, treats oral mucositis, a debilitating side effect of chemotherapy and radiation treatment. It's now sold in Europe, with a global market potential of $5 billion, says Access. The company regained North American rights this summer and hopes to partner with a big drugmaker. Keith Markey of Griffin Securities (it did business with Access) says MuGard alone is worth more than Access' stock, and its two cancer drugs, Prolindac and Thiarabine, are big extras that "make Access a cheap takeover bait." Robert Wasserman of Dawson James Securities says Access is an enticing target worth 11. |BW|

BRAD TRENT; CHARTS BY DAVID FOSTER

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- Rudi Thun, AOL
- John Holt, Cobalt
- Cindy McColley, General Motors

Moving Online Leads to Offline Sales moderated by Angie Sherrell of GS Marketing with panelists:

- Clayton Stanfield, eBay Motors
- Todd Smith, ActivEngage
- Jim Flint, John Eagle Honda
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BOOKS | FREDERIK BALFOUR

Fixing an Out-of-Whack Global Economy

Stephen Roach, who predicted the downturn, says the West and Asia need to trade spending habits

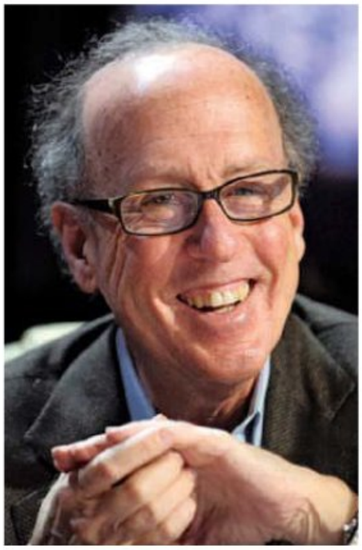


RICH TU

Stephen S. Roach has long been regarded as Wall Street's perennial bear. He has been predicting an American economic Armageddon since 2004, and though it took a while, history proved him right. Since leaving his job as chief economist at Morgan Stanley to become its chairman for Asia Pacific, in May 2007, Roach has trained his sights primarily on the East. Anyone looking for a solid primer on the region and its increasing interdependence with the West should give his new book, *The Next Asia*, a good thumbing.

In this collection of essays and quick hits written between 2006 and June 2009, Roach opines on everything from the North Korean nuclear threat to soft-headed Washington lawmakers. But the dominant theme is one Roach has harped on ad nauseum—his words, not mine—for years: The global economy is seriously out of whack and needs a complete rebalancing. American consumers need to stop spending, and Asians need to start.

As is now obvious, the asset-driven growth of America's economy was unsustainable. Roach deserves credit for sounding the alarm in early 2006, warning that the spending binge fueled by soaring housing and stock prices was a runaway train. Personal savings rates in the U.S. fell to virtually zero



Roach warns that Asia is too dependent on U.S. consumer demand

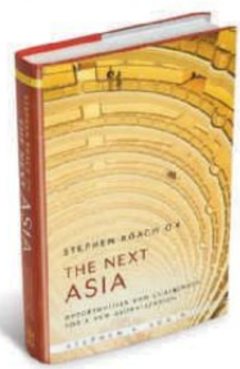
between 2005 and 2007, he notes in a short but dire chapter written in November 2008. Asia, especially China, had no choice but to run huge trade surpluses and buy dollar assets with foreign reserves to underwrite U.S. consumers.

The flip side is chronic underconsumption within China and its overdependence on export-led growth. Roach credits Chinese Premier Wen Jiabao with seeing the inherent weakness, despite its torrid growth, in China's economy, which Wen described as "unbalanced, unstable, uncoordinated, and unsustainable" at the National People's Congress in Beijing in March 2007. Roach argues that Chinese consumers, who accounted for just 35% of their country's GDP in 2007, compared with 72% for U.S. consumers, won't loosen their purse strings until China improves its tattered social safety net. The national social security scheme, for example, has just enough in its coffers to provide $100 per capita in lifetime benefits. No wonder China has 20% of the world's population but accounts for just 3% of global consumption.

One of the most thought-provoking sections of the book deals with the globalization debate. The IT-enabled trade in services has brought tremendous benefits to developing Asia, but the cross-border labor arbitrage hasn't helped white-collar workers in leading economies. Globalization was supposed to lift all boats, but labor's share of GDP in the U.S., Japan, and Europe sank to an all-time low of 54% in 2007. Roach warns that the protectionist backlash in the West against globalization has gathered force since the crisis hit, with potentially disastrous results.

It helps that he leavens his macro-speak with sprinkles of macro-whimsy. In blogs written while he attended Davos in 2008 he pokes fun at the Pollyannas who cling to "dreams of decoupling"—"a scenario where the world no longer sneezes when the United States catches a cold." Even so, some of his detractors begrudgingly tell him, "Well, you're finally right." Yet by the end of the alpine confab, he notes: "Around the world, market-friendly central bankers stand shoulder to shoulder in their penchant to keep the magic alive for an asset-dependent world. Time to get out of Davos."

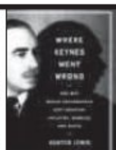
Though the book's title suggests a pan-Asian treatment, the work is lopsided toward China, which gets 100 pages (170, if you include material on Sino-U.S. tensions); India gets a scant seven. Yet Roach describes India as the "sleeper," overlooked compared with the China miracle. The subcontinent could become "Asia's biggest surprise in the years immediately ahead," he writes, though he fails to flesh out this argument. And while the author says one cannot paint the rest of the countries in Asia with one brush, in the case of Singapore, Indonesia, and Taiwan, he doesn't even bother taking one up. He does argue the need for the region to wean itself from the manufacturing that feeds China's supply chain, which is dependent on the U.S. consumer. The only way Asia can avoid getting whacked by the next global downturn is to promote more internal private consumption, he says. Unfortunately, Roach doesn't provide a road map showing how to get there.



The Next Asia: Opportunities and Challenges for a New Globalization **by Stephen Roach; Wiley; 414 pp.; $39.95**

Perhaps because the book is made up of shorter, stand-alone pieces written over three years, Roach often returns to the same themes and employs the same phrasing from one chapter to the next. I lost count of the number of times Roach explained that a stronger yuan or higher tariffs would "amount to the equivalent of a tax hike on the American consumer" because the U.S. would merely respond by importing from a higher-cost trading partner.

Ultimately, Roach concludes that Asia's bright future is less certain than many would suppose. The sooner it shifts away from export and investment-led growth and figures out how to get its shoppers shopping, the less turbulence there will be on its economic ascent. BW

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HEALTH CARE

THE MALPRACTICE DEBATE

"A Second Opinion on Malpractice" (New Business, Sept. 28) argued that tort reform would do little to lower health-care costs. The issue is highly controversial, and the comments we got reflected that. Many doctors disagreed with the article, saying malpractice costs do, in fact, influence how they practice medicine. Other readers said tort reform, which would put a limit on damage awards, would be unfair to patients injured by physician error. –*Cathy Arnst*

We reformed our medical-malpractice laws in Texas in 2003, and it has drastically increased access to care. It's a mistake to focus this debate so narrowly on physician practices. Reforms here have allowed hospitals to put money back into serving patients via expanded emergency rooms, stronger OB/GYN units, and upgraded patient-safety programs.

Screen name: Amy Arrant, M.D.



The "cost" of defensive medicine is often cited, never proven.

Screen name: Ben Glass

[Tort reform] sounds like one more way to keep patients from holding doctors accountable for serious malpractice offenses.

Screen name: derek

Inflated medical-malpractice premiums accrue more costs than those reflected in the bottom line. Graduating medical students are influenced to seek subspecialty training to offset the debt of medical education and malpractice premiums. Research shows that a population with more specialists than primary-care physicians has worse health outcomes than a population with adequate primary care. The math in your article is skewed.

Screen name: Chase Wilson, M.D.

As an OB/GYN, my motto is: "Perform only acts that will be uncriticizable." This makes my life safer and less stressful but may not always be what I believe is the best choice for the patient. Yes, we all pay a very large price for the status quo—except for trial lawyers.

Screen name: Steve

HEIMO/GALLERY STOCK

THE ECONOMY

PUZZLED BY THE PARADOX OF SAVING

Regarding "Britain's New Scrooges Threaten Its Economy" (BTW, Sept. 21): To overspend is bad, but to scrimp is bad, too—for the economy. The question for people like me, who have saved and lived simply: Is there a happy medium in the midst of a financial crisis?

Ramon Cardona
LOVELAND, OHIO

CAREERS

ANOTHER GOOD PLACE TO GET STARTED: THE NAVY

"Best Places to Launch Your Career" (In Depth, Sept. 14) included a few government agencies. But what about the military? My son is a Naval aviator, and his associates are impressive, intelligent, and have tremendous responsibility at a young age. This unique experience is a valuable way to begin a career.

John Gustavson
GLEN ELLYN, ILL.

One statistic that should have been analyzed [in the ranking of best places to launch a career] is the number of 2008 hires who were laid off in 2009. This group has been significantly affected by the current economic downturn.

If a company is a great place to start your career, it won't push you out the door less than a year later to make room for 2009 hires and maintain its image with local universities.

Screen name: Matt

JOB CREATION

UNIVERSITY RESEARCH IS PART OF THE SOLUTION

"How Science Can Create Millions of New Jobs" ("The Future of Tech," Cover Story, Sept. 7) makes some important points about the decline of funding for basic research in the U.S. But it tells only part of the tale.

While corporate spending on research has declined, federally sponsored research at universities continues to provide the fuel for business growth. Witness the university research that has led to such marketplace innovations as computer graphics, nanotechnology, robotics, and heat-resistant crops.

Let's acknowledge that universities are doing their part.

Stephen Philip Johnson
Vice-President
Government & Community Relations
Cornell University
ITHACA, N.Y.



Your GPS Is Ringing

Garmin has added a phone to a navigation device, but it's not a phone you'd want to use

Adding navigation to a wireless phone makes great sense, and turn-by-turn navigation services have long been available for smartphones and less capable handsets. The Garmin nüvifone G60 stands the concept on its head by adding phone features to what is basically a stand-alone personal navigation device.

How does the nüvifone, a joint product of Garmin and Taiwan's Asustek, compare with more conventional navigation-equipped phones? To find out, I tested it against several navigation apps running on Apple's iPhone.

The nüvifone ($299 after rebate, with a two-year AT&T contract) is, as you would expect, a very good navigation device. If it weren't for the AT&T logo on the case, you could mistake it for one of Garmin's slender stand-alone GPS products. The display and user interface will be familiar to anyone who has used Garmin. Thanks to a wireless data connection, it downloads real-time traffic information, gas prices, weather, and local movie times, though these "Premium Connected Services" require a $6 monthly subscription.

The problem is, the phone part of the nüvifone is mediocre at best. It's a basic handset with a minimal e-mail program and Web browser and a camera that's merely O.K. I was glad to find I could sync contacts and calendar with Outlook and automatically navigate to the address of a contact. On the other hand, the sensitivity of the touch display is poor, which makes typing on the on-screen keyboard difficult. That's not a big problem for navigation, where you don't enter much information, but it cripples e-mail and browsing.

For what the nüvifone costs, you can get an iPhone plus the TomTom navigation app—and then you'd have an iPhone, too

Let's look at the competing approach. There are two ways to add navigation features to an iPhone or other smartphones. The most widely used method is to download maps and directions from the network as needed. But TomTom for iPhone ($100), like the nüvifone, stores its database of maps, driving instructions, and points of interest on the device itself. This has one huge advantage: It works even when you have no network coverage. But it also has drawbacks. Route calculation is a bit slower, the data can get out of date, and the software takes up a lot of space on your phone—1.2 gigabytes for TomTom.

In my tests the iPhone with TomTom wasn't quite in the league of the nüvifone as a navigation tool. For one thing, the iPhone's GPS processing is a little slow to update your position, resulting in unnecessary and annoying route recalculations. This situation should improve with TomTom's forthcoming $125 kit for mounting the iPhone on your dashboard, which includes an auxiliary GPS receiver. Also, I never succeeded in getting TomTom to generate routes based on information stored in the iPhone's address book. (On the other hand, the cost of an iPhone plus TomTom software is about the same as the price of a nüvifone—the difference being that you take home an iPhone.)



The nüvifone's limitations could be remedied when the Android version arrives

I also tried two network-based navigation services for the iPhone: AT&T Navigator Telenav and Gokivo Navigator from Networks in Motion. Both cost $10 a month. AT&T Navigator looks and feels very much like the program the company offers for BlackBerrys and other phones, while Gokivo is much more in the iPhone spirit, sort of like the Maps app with real-time instructions and traffic info. Both worked quite well, though, curiously, only in the phone's vertical orientation, not in the horizontal setup that seems more natural for maps.

For now, I think one of these apps on the iPhone makes more sense than the nüvifone because of the limitations of the Garmin handset. That could change next year, when Garmin and Asustek plan to release a model based on Google's Android software. As the iPhone has proved, good navigation software in a great smartphone is a potent combination. | BW |

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Financial Reform: Lessons from 1929

As a congressional inquiry into the crisis begins, history shows the perils of dawdling

The Financial Crisis Inquiry Commission, set up by Congress to tell us who killed the banks and what to do about it, has just held its first meeting. Established by law in May, the 10-member panel gathered on Sept. 17 to appoint its executive director: Thomas Greene, a longtime California prosecutor. In the interim, the major banks, reincarnated by government bailouts, have sprinted ahead with near-record profits and new financial products.

Will the commission catch up in this tortoise-and-hare race and propose solutions before another crisis hits? As usual, history is our best guide.

When Congress appropriated $8 million to examine the causes of the recent crisis, it had in mind the example of Ferdinand Pecora, the flamboyant hero of a similar inquiry in the 1930s. Pecora, a young New York prosecutor, became the star of hearings run by the Senate Banking & Currency Committee—in part by grilling bankers about their excesses. His efforts helped build the foundation for the securities laws that govern today's markets.



But few remember how long the panel stumbled about before that. Pecora wasn't the group's first leader; he was the fifth. And the panel didn't finish its work until four years after the 1929 crash, when the country was mired in the Great Depression.

Nor did it get a swift start. After Black Monday and Tuesday in October 1929, several senators called for new laws to prevent another crisis. But over the next six months, stocks recovered 90% of their losses from the Crash. (President Herbert Hoover called it "the little bull market.") Appetite for reform waned, and bankers assured Congress that heavy-handed regulation was unnecessary—even counterproductive. They would reform themselves. Sound familiar?

When Hoover and the Republican Congress finally approved an investigation of Wall Street, Peter Norbeck, a senior member of the Senate Banking & Currency Committee, took the reins. Senator Norbeck, a former oil man from South Dakota, wrote that he was fortunate "the stuff goes over my head. I do not understand it all. If I did, maybe I wouldn't sleep."

The first hearings, in 1932, were sluggish, as Joel Seligman explains in *The Transformation of Wall Street*. The commission's first counsel, Rhode Island lawyer Claude Branch, was overwhelmed by his lead-off witness, New York Stock Exchange President Richard Whitney. The smooth-talking Whitney dazzled reporters and onlookers as he denied that any short-selling schemes had occurred on his watch. Branch was gone a few days later. His replacement, Republican trial lawyer William Gray, didn't last much longer. The Democrats accused him of political favoritism, ousting him after he accused their party's national chairman of manipulating the price of General Motors stock. On to the third counsel: A friend of Norbeck from South Dakota agreed to fill in until the Presidential election, which Hoover lost to Franklin Roosevelt.

With Roosevelt in power, reformers hoped for a strong replacement, perhaps Chicago activist Harold Ickes or New York superlawyer Samuel Untermyer. Both declined, citing the uncertain extent of the panel's authority. The job went to New York attorney Irving Ben Cooper, 30, a junior corruption investigator. When Cooper requested 500 subpoenas, the Senate balked. He quit, complaining that Washington just wanted someone to "sit on the lid."

Pecora arrived in February 1933 and blew off the lid. After Norbeck gave him "all the authority necessary," he hauled in dozens of financiers for public floggings, earning the moniker "hellhound of Wall Street" and guiding the panel toward its recommendations.

There are reasons to be skeptical of the new commission, just as there was to doubt the chances of reform one year after the 1929 crash. Then, as now, the panel was outmatched by Wall Street. Then, as now, it was slow to start, faced serious political obstacles, and had limited subpoena power. There were years of economic stagnation (and new scandals) before Congress passed reforms aimed at protecting investors from crisis. Early prospects were dim. They brightened only when Pecora dashed ahead. The current commission's final report is due Dec. 15, 2010. The race is on. | BW |

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(FROM TOP) TIM MANTOANI; ILLUSTRATION BY JESSE LEFKOWITZ


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